

OFFICIAL STATEMENT DATED JULY 17, 2024

IN THE OPINION OF BOND COUNSEL (HEREIN DEFINED), UNDER EXISTING LAW AND ASSUMING CONTINUING COMPLIANCE WITH COVENANTS IN THE BOND ORDERS, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND IS NOT INCLUDED IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS; HOWEVER, SUCH INTEREST IS TAKEN INTO ACCOUNT IN DETERMINING THE ANNUAL ADJUSTED FINANCIAL STATEMENT INCOME OF APPLICABLE CORPORATIONS FOR THE PURPOSE OF DETERMINING THE ALTERNATIVE MINIMUM TAX IMPOSED ON CORPORATIONS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

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

NEW ISSUE – Book Entry Only

S&P Global Ratings (Insured)....."AA"

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42

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

\$4,250,000
UNLIMITED TAX BONDS
SERIES 2024

\$1,895,000
UNLIMITED TAX PARK BONDS
SERIES 2024

Interest accrues from: Date of Delivery

Dated: August 1, 2024

Due: September 1, as shown on the inside cover

The \$4,250,000 Unlimited Tax Bonds, Series 2024 (the "Utility Bonds") and the \$1,895,000 Unlimited Tax Park Bonds, Series 2024 (the "Park Bonds," collectively, referred to as the "Bonds") are obligations of Montgomery County Municipal Utility District No. 42 (the "District") and are not obligations of the State of Texas ("Texas"); Montgomery County, Texas (the "County"); the City of Conroe, Texas (the "City"); or any political subdivision or entity other than the District. Neither the full faith and credit nor the taxing power of Texas; the County; the City; nor any entity other than the District is pledged to the payment of the principal of or the interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (the "Paying Agent/Registrar"). The Bonds are dated August 1, 2024 (the "Dated Date"), and will accrue interest from the date of delivery, which is expected to be on or about August 14, 2024 (the "Date of Delivery"), with interest payable on March 1, 2025, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date. The Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an separate insurance policies (each a "Policy" and collectively, the "Policies") to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP. or its successor ASSURED GUARANTY INC.** See "MUNICIPAL BOND INSURANCE – Bond Insurance Policy" herein.

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

The Utility Bonds are the sixth series of bonds to be issued by the District for the construction of the System (herein defined), and, when issued, will constitute valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property within the District. The Park Bonds are the first series of unlimited tax bonds to be issued by the District for park and recreational facilities, and, when issued, will constitute valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment."

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

The Bonds are offered, when, as and if issued by the District and accepted by the initial purchasers of the Bonds (the "Initial Purchasers"), subject, among other things, to the approval of the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about August 14, 2024.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

\$4,250,000

UNLIMITED TAX BONDS, SERIES 2024

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2025	\$ 90,000	6.50 %	3.60 %	613903 FE8	2036	\$ 175,000 (c)	4.00 %	3.75 %	613903 FR9
2026	110,000	6.50	3.50	613903 FF5	2037	185,000 (c)	4.00	3.85	613903 FS7
2027	115,000	6.50	3.50	613903 FG3	***	***	***	***	***
2028	120,000	6.00	3.50	613903 FH1	2040	215,000 (c)	4.00	4.05	613903 FV0
2029	130,000	4.00	3.50	613903 FJ7	2041	225,000 (c)	4.00	4.09	613903 FW8
2030	135,000	4.00	3.50	613903 FK4	2042	235,000 (c)	4.00	4.13	613903 FX6
2031	140,000 (c)	4.00	3.50	613903 FL2	2043	245,000 (c)	4.00	4.17	613903 FY4
2032	145,000 (c)	4.00	3.50	613903 FM0	2044	255,000 (c)	4.00	4.21	613903 FZ1
2033	155,000 (c)	4.00	3.55	613903 FN8	2045	270,000 (c)	4.00	4.25	613903 GA5
2034	160,000 (c)	4.00	3.60	613903 FP3	2046	280,000 (c)	4.00	4.28	613903 GB3
2035	170,000 (c)	4.00	3.65	613903 FQ1	2047	295,000 (c)	4.00	4.32	613903 GC1

\$400,000 Term Bond due September 1, 2039 (c,d), 613903 FU2 (b), 4.00% Interest Rate, 4.00% Yield (a)

\$1,895,000

UNLIMITED TAX PARK BONDS, SERIES 2024

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2025	\$ 40,000	6.50 %	3.60 %	613903 GD9	2029	\$ 55,000	6.50 %	3.50 %	613903 GH0
2026	50,000	6.50	3.50	613903 GE7	2030	60,000	4.00	3.50	613903 GJ6
2027	50,000	6.50	3.50	613903 GF4	2031	65,000 (c)	4.00	3.50	613903 GK3
2028	55,000	6.50	3.50	613903 GG2					

\$135,000 Term Bond due September 1, 2033 (c,d), 613903 GM9 (b), 4.00% Interest Rate, 3.55% Yield (a)

\$145,000 Term Bond due September 1, 2035 (c,d), 613903 GP2 (b), 4.00% Interest Rate, 3.65% Yield (a)

\$165,000 Term Bond due September 1, 2037 (c,d), 613903 GR8 (b), 4.00% Interest Rate, 3.85% Yield (a)

\$175,000 Term Bond due September 1, 2039 (c,d), 613903 GT4 (b), 4.00% Interest Rate, 4.00% Yield (a)

\$195,000 Term Bond due September 1, 2041 (c,d), 613903 GV9 (b), 4.00% Interest Rate, 4.09% Yield (a)

\$215,000 Term Bond due September 1, 2043 (c,d), 613903 GX5 (b), 4.00% Interest Rate, 4.17% Yield (a)

\$235,000 Term Bond due September 1, 2045 (c,d), 613903 GZ0 (b), 4.00% Interest Rate, 4.25% Yield (a)

\$255,000 Term Bond due September 1, 2047 (c,d), 613903 HB2 (b), 4.00% Interest Rate, 4.32% Yield (a)

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchasers. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2031, and thereafter shall be subject to redemption and payment at the option of the District, in whole, or from time to time in part, on September 1, 2030, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – Optional Redemption."
- (d) Subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Redemption Provisions – Mandatory Redemption."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, records, and 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 Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, for further information.

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

Assured Guaranty Municipal Corp. or its successor Assured Guaranty Inc. (the "Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Insurer 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 the Insurer supplied by the Insurer and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B."

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for any purposes.

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT	1	Role of the Developer	37
SALE AND DISTRIBUTION OF THE BONDS	3	The Developer	37
Award of the Bonds.....	3	Development Financing.....	37
Prices and Marketability.....	3	THE SYSTEM.....	38
Securities Laws	3	Regulation	38
MUNICIPAL BOND INSURANCE.....	4	Water Supply and Wastewater Treatment.....	38
Bond Insurance Policy.....	4	Storm Water Drainage	38
Assured Guaranty Municipal Corp.	4	100-Year Flood Plain	38
Planned Merger of Assured Guaranty Municipal		Conservation District.....	39
Corp. Into Assured Guaranty Inc.....	4	DISTRICT DEBT.....	40
MUNICIPAL BOND RATING.....	6	General.....	40
OFFICIAL STATEMENT SUMMARY	7	Debt Service Requirement Schedule.....	41
SELECTED FINANCIAL INFORMATION	11	Direct and Estimated Overlapping Debt Statement.....	42
RISK FACTORS	12	Debt Ratios.....	42
General.....	12	General Fund Operating Statement.....	43
Factors Affecting Taxable Values and Tax Payments...12		TAXING PROCEDURES.....	43
District's Prior Bankruptcy.....	13	Authority to Levy Taxes	43
Competitive Nature of Residential Housing Market....13		Property Tax Code and County-Wide Appraisal	
Potential Effects of Oil Price Fluctuations on the		District.....	43
Houston Area.....	14	Property Subject to Taxation by the District.....	44
Vacant and Under Construction Lots	14	Tax Abatement	45
Tax Collection Limitations	14	Valuation of Property for Taxation.....	45
Limitation to Registered Owners' Remedies	14	Tax Exemption for Property Damaged by Disaster.....	46
Bankruptcy Limitation to Registered Owners'		District and Taxpayer Remedies	46
Rights	14	Tax Payment Installments.....	46
Marketability.....	15	Levy and Collection of Taxes.....	46
Future Debt.....	15	Notice and Hearing Procedures.....	47
Approval of the Bonds	16	Rollback of Operation and Maintenance Tax Rate.....	47
Continuing Compliance with Certain Covenants	16	District's Rights in the Event of Tax Delinquencies.....	48
Environmental Regulations.....	16	The Effect of FIRREA on Tax Collections of the	
Potential Impact of Natural Disaster	18	District.....	48
Extreme Weather Events.....	18	TAX DATA	49
Specific Flood Type Risks	19	General.....	49
Atlas 14.....	19	Tax Rate Limitation	49
Changes in Tax Legislation	19	Debt Service Taxes.....	49
Bond Insurance Risk Factors	19	Maintenance and Operation Taxes	49
THE BONDS.....	20	Tax Exemption.....	49
General.....	20	Additional Penalties	49
Book-Entry-Only System.....	21	Historical Tax Collections	49
Successor Paying Agent/Registrar	23	Tax Rate Distribution	50
Registration, Transfer and Exchange.....	23	Analysis of Tax Base.....	50
Funds.....	23	Principal Taxpayers	50
Redemption Provisions.....	23	Tax Rate Calculations	51
Mutilated, Lost, Stolen or Destroyed Bonds.....	25	Estimated Overlapping Taxes	51
Authority for Issuance	25	LEGAL MATTERS	52
Outstanding Bonds.....	25	Legal Proceedings	52
Source of Payment.....	26	No-Litigation Certificate.....	52
Issuance of Additional Debt	26	No Material Adverse Change.....	52
No Arbitrage.....	26	TAX MATTERS.....	52
Annexation.....	27	Proposed Tax Legislation	53
Consolidation.....	27	Tax Accounting Treatment of Original Issue	
Defeasance	27	Discount Bonds.....	54
Legal Investment and Eligibility to Secure Public		Qualified Tax-Exempt Obligations.....	54
Funds in Texas	28	CONTINUING DISCLOSURE OF INFORMATION	54
Amendments to the Bond Orders	28	Annual Reports.....	55
Registered Owners' Remedies	29	Event Notices	55
Use and Distribution of Utility Bond Proceeds	30	Availability of Information from EMMA.....	56
Use and Distribution of Park Bond Proceeds	31	Limitations and Amendments	56
THE DISTRICT.....	32	Compliance with Prior Undertaking.....	56
Authority.....	32	OFFICIAL STATEMENT	56
Description	32	General.....	56
Management of the District	32	Experts	56
Investment Policy	32	Certification as to Official Statement	57
Consultants	33	Updating of Official Statement.....	57
DEVELOPMENT OF THE DISTRICT	34	Forward-Looking Statements.....	57
Status of Development within the District.....	34	CONCLUDING STATEMENT	58
Homebuilder within the District.....	34	APPENDIX A	Financial Statements of the District
Photographs Taken Within The District.....	35	APPENDIX B	Specimen Municipal Bond Insurance
Photographs Taken Within The District.....	36	Policy	
PRINCIPAL LANDOWNER/DEVELOPER.....	37		

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Utility Bonds, the District has accepted the bid of SAMCO Capital Markets, Inc. (the "Utility Bond Initial Purchaser") to purchase the Utility Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 97.03352% of par, resulting in a net effective interest rate to the District of 4.254329%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended. No assurance can be given that any trading market will be developed for the Utility Bonds after their sale by the District to the Utility Bond Initial Purchaser. The District has no control over the price at which the Utility Bonds are subsequently sold, and the initial yields at which the Utility Bonds are priced and reoffered are established by and are the sole responsibility of the Utility Bond Initial Purchaser.

After requesting competitive bids for the Park Bonds, the District has accepted the bid of SAMCO Capital Markets, Inc. (the "Park Bond Initial Purchaser," and together with the Utility Bond Initial Purchaser, the "Initial Purchasers") to purchase the Park Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 97.00% of par, resulting in a net effective interest rate to the District of 4.287211%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended. No assurance can be given that any trading market will be developed for the Park Bonds after their sale by the District to the Park Bond Initial Purchaser. The District has no control over the price at which the Park Bonds are subsequently sold, and the initial yields at which the Park Bonds are priced and reoffered are established by and are the sole responsibility of the Park Bond Initial Purchaser.

Prices and Marketability

Subject to certain restrictions described in the Official Notices of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchasers after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

Securities Laws

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for each series of the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement. In the event the Bonds are issued after the effectiveness of the Merger (as defined below), the Policy relating to the Bonds will be substantively identical to the form appended to this Official Statement, except that the Policy will be issued by AG (as defined below) in place of AGM. See "– Assured Guaranty Municipal Corp. – Planned Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc."

The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, 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 certain of its investment management affiliates. Only AGM is obligated to pay claims under the insurance policies AGM has issued, and not AGL or any of its shareholders or other affiliates.

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.

Planned Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.

On July 8, 2024, AGL (together with its subsidiaries, "Assured Guaranty") announced that AGM will merge with and into its affiliate, Assured Guaranty Inc. ("AG"), with AG as the surviving company (such transaction, the "Merger"). AG, a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of AGL, was formerly known as Assured Guaranty Corp. The effective date of the Merger is expected to be on or about August 1, 2024.

The Merger is expected to expand the pool of capital available to support each new and existing insurance policy, result in a further diversification of the combined company's insured portfolio's credit profile, and strengthen Assured Guaranty's ability to continue successfully executing its strategies to achieve its business objectives. Upon the effectiveness of the Merger, the combined company, compared with either AGM or AG before the Merger, will have:

- a larger, highly diversified insured portfolio,
- a larger investment portfolio and a larger capital base, and
- more total claims-paying resources.

Currently, AGM and AG have the same financial strength ratings from S&P (AA/Stable), Moody's (A1/Stable) and KBRA (AA+/Stable). AG's insurance financial strength ratings are expected to be unaffected by the Merger.

On July 10, 2024, Moody's, following Assured Guaranty's announcement of the Merger, affirmed the insurance financial strength ratings of AGM and AG of "A1" (stable outlook). On July 9, 2024, S&P stated that the Merger will not change its assessment of the Assured Guaranty group's business risk or financial risk positions. On July 8, 2024, KBRA commented that, upon the expected August 1, 2024 closing of the Merger, AG's insurance financial strength rating of "AA+" (stable outlook) will remain unchanged.

Current Financial Strength Ratings

On July 10, 2024, Moody's announced it had affirmed AGM's insurance financial strength rating of "A1" (stable outlook).

On May 28, 2024, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook).

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 S&P, Moody's and/or KBRA 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, 2023.

Capitalization of AGM and Pro Forma Combined AG

As of March 31, 2024

(dollars in millions)

	AGM (Actual)	AG (Pro Forma Combined)
Policyholders' surplus	\$2,665	\$4,013
Contingency reserve	\$892	\$1,312
Net unearned premium reserves and net deferred ceding commission income ⁽¹⁾	\$2,036	\$2,385

⁽¹⁾ Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM or pro forma combined AG, as applicable, and (ii) the net unearned premium reserves and net deferred ceding commissions of Assured Guaranty UK Limited ("AGUK") and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus of AGM (and pro forma combined AG) and the contingency reserves, net unearned premium reserves and net deferred ceding commission income of AGM (and pro forma combined AG) 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, 2023 (filed by AGL with the SEC on February 28, 2024); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 (filed by AGL with the SEC on May 8, 2024).

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”.

MUNICIPAL BOND RATING

The Bonds are expected to receive an insured rating of “AA” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), based upon the issuance of each Policy by the Insurer at the time of delivery of the Bonds. The District has not made an application for a municipal bond rating on the Bonds. Furthermore, it is not expected that the District would have been successful in obtaining an investment-grade rating on each series of the Bonds had such application been made.

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

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OFFICIAL STATEMENT SUMMARY

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

THE BONDS

- The District..... Montgomery County Municipal Utility District No. 42 (the “District”), a political subdivision of the State of Texas (“Texas”), is located in Montgomery County, Texas (the “County”). The rights, powers, privileges authority and functions of the District are established by the general laws of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – Authority” and “– Description.”

- The Bonds..... The \$4,250,000 Unlimited Tax Bonds, Series 2024 (the “Utility Bonds”) and the \$1,895,000 Unlimited Tax Park Bonds, Series 2024 (the “Park Bonds,” collectively, referred to as the “Bonds”) are dated August 1, 2024 (the “Dated Date”) and mature on September 1 in each of the years and principal amounts set forth on the inside cover page hereof. The Bonds will accrue interest from the date of delivery, which is expected to be on or about August 14, 2024 (the “Date of Delivery”), with interest payable on March 1, 2025, and on each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See “THE BONDS.”

- Redemption Provisions Optional Redemption: Bonds maturing on and after September 1, 2031, are subject to redemption, in whole or from time to time in part, at the option of the District on September 1, 2030, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See “THE BONDS – Redemption Provisions – Optional Redemption.”

Mandatory Redemption: The Utility Bonds maturing on September 1 in the year 2039, and the Park Bonds maturing on September 1 in the years 2033, 2035, 2037, 2039, 2041, 2043, 2045 and 2047 are term bonds (the “Term Bonds”). The Term Bonds are subject to mandatory sinking fund redemption provisions as set forth under “THE BONDS – Redemption Provisions – Mandatory Redemption.”

- Source of Payment Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of Texas; the County; the City of Conroe, Texas (the “City”); or any entity other than the District. See “THE BONDS – Source of Payment.”

- District’s Prior Bankruptcy On July 2, 1980, the District issued its Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980 in the original principal amount of \$900,000 (the “Series 1980 Bonds”). The District defaulted on the payment of principal and interest on the Series 1980 Bonds on June 1, 1993, and after receiving approval from the Texas Natural Resources Conservation Commission (a predecessor to the Texas Commission on Environmental Quality) on June 29, 1994, filed a petition in the

United States Bankruptcy Court for the Southern District of Texas, Houston Division (the “Court”) under Chapter 9 of the Bankruptcy Code. The Court issued an Order dated September 19, 1996, confirming the District’s Second Amended Plan of Adjustment (the “Plan”). Upon the issuance of the District’s Series 1999 Refunding Bonds, the District satisfied all classes of claims, including the claims of the holders of the defaulted Series 1980 Bonds. From that point forward, the District has not been subject to the Plan. See “RISK FACTORS – District’s Prior Bankruptcy.”

Outstanding Bonds.....The District has previously issued the Series 1980 Bonds; \$2,035,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds and Refunding Bonds, Series 1999; \$1,515,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2012; \$3,855,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2018; \$1,865,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2020; and \$3,020,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2022. As of the Date of Delivery of the Bonds, \$8,235,000 principal amount of such bonds previously issued will remain outstanding (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”

Authority for Issuance.....To date, voters of the District have authorized the District’s issuance of a total of \$27,420,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds and/or unlimited tax bonds for the purpose of acquiring or constructing water, sewer, and drainage facilities serving the District; \$6,000,000 principal amount of unlimited tax park bonds for the purpose of acquiring or constructing parks and recreational facilities serving the District; and \$13,612,500 principal amount of unlimited tax bonds and revenue bonds for the purpose of refunding of bonds issued by the District.

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended; elections held within the District on January 20, 1979 and May 1, 2021 for the Utility Bonds and an election held within the District on May 6, 2023 for the Park Bonds; orders adopted by the Board of Directors of the District (the “Board”) on the date of sale of the Bonds (the “Utility Bond Order” and the “Park Bond Order,” collectively, referred to as the “Bond Orders”); and an order of the Texas Commission on Environmental Quality (“TCEQ”). See “THE BONDS – Authority for Issuance.”

Use of Proceeds of Utility Bonds.....Proceeds of the Utility Bonds will be used to (i) reimburse the Developer (herein defined) for water, sanitary sewer and drainage improvements to serve the remainder of Hills of Westlake, Section 2 and Hills of Westlake, Section 3 and engineering, geotechnical and testing fees related to such improvements; (ii) fund land acquisition costs; (iii) pay developer’s interest; and (iv) pay the costs of the issuance of the Bonds. See “THE BONDS – Use and Distribution of Utility Bond Proceeds.”

Use of Proceeds of Park Bonds.....Proceeds of the Park Bonds will be used to (i) pay for park construction costs and engineering, geotechnical and testing fees related to such improvements; (ii) fund land acquisition costs; and (iii) pay the costs of the issuance of the Bonds. See “THE BONDS – Use and Distribution of Park Bond Proceeds.”

Municipal Bond Insurance and Rating.....S&P Global Ratings (AGM Insured): “AA.” See “MUNICIPAL BOND RATING.” Assured Guaranty Municipal Corp. or its successor Assured Guaranty Inc. (the “Insurer”). See “MUNICIPAL BOND INSURANCE.”

Bond CounselSanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas.

Disclosure CounselMcCall, Parkhurst & Horton L.L.P., Houston, Texas.

Financial Advisor.....Robert W. Baird & Co. Incorporated, Houston, Texas.

THE DISTRICT

Description.....The District was created by order of the predecessor of the TCEQ dated June 27, 1978. The District contains 390.37 total acres and is situated entirely within the County, the extraterritorial jurisdiction of the City, and the boundaries of Conroe Independent School District. See “THE DISTRICT.”

Location.....The District is located in the central part of the County approximately 5.5 miles west of the central business district of the City and adjacent to Texas State Highway 105. The District is located north of State Highway 105, to the west of FM 3083, south of Longmire Road, and to the east of the San Jacinto River.

Developer and Principal Landowner.....The current developer and principal owner of land in the District is Hills of Westlake Ltd. (the “Developer”), a Texas limited partnership. Compass Land Development LLC is the general partner, and Nino Corbett and Fleet Family Investments, L.P. are the limited partners. The Developer and its related entities currently own approximately 39.1 acres_(including 32 vacant, developed lots) in the District. See “PRINCIPAL LANDOWNER/DEVELOPER.”

Development within the District.....To date, approximately 202.06 acres within the District have been developed as 665 single-family lots in the following single-family residential subdivisions: La Salle Crossing, Section 1 and Hills of Westlake, Sections 1, 2, and 3. As of June 1, 2024, development within the District consisted of approximately 526 completed homes (526 occupied), approximately 16 homes under construction and approximately 123 vacant, developed lots. The remainder of the lands within the District includes approximately 28.07 acres of park and open space, approximately 10.45 acres of commercial reserves, approximately 12.17 undeveloped but developable acres and approximately 137.62 undevelopable acres for floodway and floodplain. See “DEVELOPMENT OF THE DISTRICT – Status of Development within the District.”

Homebuilder.....D.R. Horton is the only active homebuilder within the District. New homes being marketed in the District range in price from approximately \$311,990 to over \$384,380 and in size from approximately 1,600 to over 3,400 square feet.

RISK FACTORS

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

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SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2023 Certified Taxable Assessed Valuation	\$147,228,548	(a)
2024 Preliminary Taxable Assessed Valuation.....	\$158,438,264	(b)
Estimate of Taxable Assessed Valuation as of June 1, 2024.....	\$170,146,125	(c)
Direct Debt:		
The Outstanding Bonds.....	\$ 8,235,000	
The Utility Bonds	4,250,000	
The Park Bonds	<u>1,895,000</u>	
Total Direct Debt.....	\$ 12,485,000	
Estimated Overlapping Debt.....	<u>\$ 6,318,564</u>	(d)
Total Direct and Estimated Overlapping Debt.....	\$ 18,803,564	(d)
Direct Debt Ratios:		
As a Percentage of 2024 Preliminary Taxable Assessed Valuation.....	7.88	%
Estimate of Taxable Assessed Valuation as of June 1, 2024	7.34	%
Direct and Estimated Overlapping Debt Ratios:		
As a Percentage of 2024 Preliminary Taxable Assessed Valuation.....	11.87	%
Estimate of Taxable Assessed Valuation as of June 1, 2024	11.05	%
Debt Service Fund Balance (as of June 6, 2024).....	\$ 834,026	(e)
Operating Fund Balance (as of June 6, 2024)	\$ 1,555,409	
Capital Projects Fund Balance (as of June 6, 2024)	\$ 299,326	
2023 Tax Rate:		
Debt Service	\$0.50	
Maintenance and Operations	<u>\$0.43</u>	
Total.....	\$0.93	
Average Annual Debt Service Requirement (2025-2047).....	\$ 919,571	(f)
Maximum Annual Debt Service Requirement (2041).....	\$ 1,007,673	(f)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay		
Average Annual Debt Service Requirement (2025-2047)		
Based on 2024 Preliminary Taxable Assessed Valuation at 95% Tax Collections....	\$0.62	
Based on Estimate of Taxable Assessed Valuation		
as of June 1, 2024 at 95% Tax Collections	\$0.57	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay		
Maximum Annual Debt Service Requirement (2041)		
Based on 2024 Preliminary Taxable Assessed Valuation at 95% Tax Collections....	\$0.67	
Based on Estimate of Taxable Assessed Valuation		
as of June 1, 2024, at 95% Tax Collections	\$0.63	

- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2023, provided by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Appraisal District as the preliminary value as of January 1, 2024. This value represents the preliminary determination of the taxable value in the District as of January 1, 2024, provided by the Appraisal District. No taxes will be levied on this preliminary value, which is subject to review and downward adjustment. See "TAXING PROCEDURES."
- (c) Provided by the Appraisal District for information purposes only. This estimate reflects the addition of the taxable value from new construction within the District from January 1, 2024, to June 1, 2024. No taxes will be levied on this estimate. See "TAX DATA" and "TAXING PROCEDURES."
- (d) See "DISTRICT DEBT - Direct and Estimated Overlapping Debt Statement."
- (e) Neither Texas law nor the Bond Orders require that the District maintain any particular sum in the Debt Service Fund.
- (f) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT - Debt Service Requirement Schedule."

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42

(A Political Subdivision of the State of Texas, located within Montgomery County)

\$4,250,000
UNLIMITED TAX BONDS
SERIES 2024

\$1,895,000
UNLIMITED TAX PARK BONDS
SERIES 2024

This Official Statement of Montgomery County Municipal Utility District No. 42 (the “District”) is provided to furnish information with respect to the issuance by the District of its \$4,250,000 Unlimited Tax Bonds, Series 2024 (the “Utility Bonds”) and its \$1,895,000 Unlimited Tax Park Bonds, Series 2024 (the “Park Bonds,” collectively, referred to as the “Bonds”).

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas (“Texas”), including particularly Chapters 49 and 54 of the Texas Water Code, as amended; (ii) elections held within the District on January 20, 1979 and May 1, 2021 for the Utility Bonds and an election held within the District on May 6, 2023 for the Park Bonds; (iii) orders adopted by the Board of Directors of the District (the “Board”) on the date of sale of the Bonds (the “Utility Bond Order” and the “Park Bond Order,” collectively, referred to as the “Bond Orders”); and (iv) an order of the Texas Commission on Environmental Quality (“TCEQ”).

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District at Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056.

RISK FACTORS

General

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

Factors Affecting Taxable Values and Tax Payments

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

Principal Landowner/Developer: While the Developer (herein defined) has informed the District of its current plans to continue to develop land in the District for residential purposes, there is no commitment by, or legal requirement of, the principal landowners, the Developer, or any other landowner in the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any homebuilder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any landowner’s right to sell its land. Therefore, the District can make no representation

about the probability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See “DEVELOPMENT OF THE DISTRICT,” “PRINCIPAL LANDOWNER/DEVELOPER,” and “TAX DATA – Principal Taxpayers.”

Maximum Impact on District Tax Rates: Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The Preliminary Taxable Assessed Valuation as of January 1, 2024, of all taxable property located within the District is \$158,438,264, and the Estimate of Taxable Assessed Valuation as of June 1, 2024 is \$170,146,125. See “TAX DATA.”

After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds and the Bonds (2041) is \$1,007,673 and the average annual debt service requirement on the Outstanding Bonds and the Bonds (2025-2047) is \$919,571. Assuming no decrease to the District’s Preliminary Taxable Assessed Valuation as of January 1, 2024, tax rates of \$0.67 and \$0.62 per \$100 of taxable assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no decrease from the District’s Estimate of Taxable Assessed Valuation as of June 1, 2024, tax rates of \$0.63 and \$0.57 per \$100 of taxable assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

District’s Prior Bankruptcy

On July 2, 1980, the District issued its Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980 in the original principal amount of \$900,000 (the “Series 1980 Bonds”). The District defaulted on the payment of principal and interest on the Series 1980 Bonds on June 1, 1993, and after receiving approval from the Texas Natural Resources Conservation Commission (a predecessor to the TCEQ), on June 29, 1994, filed a petition in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the “Court”) under Chapter 9 of the Bankruptcy Code. The Court issued an Order dated September 19, 1996, confirming the District’s Second Amended Plan of Adjustment (the “Plan”).

Prior to the District’s bankruptcy, the District foreclosed on its tax liens for delinquent taxes, from the tax years 1989 to 1993, on 103.8688 acres, consisting of 26.90 acres of reserves and 231 lots. As part of the Plan, the Bankruptcy Court approved the Fifth Amended and Restated Agreement for the Sale of Real Estate (the “Real Estate Agreement”) between the District and Montgomery Westlake Partners I, LLC (“MWL”). In accordance with the Real Estate Agreement, MWL had the option to purchase from the District these lots, 166 of which were non-floodplain lots and reserves, and 65 of which were flood plain lots. MWL exercised its option to purchase all non-floodplain lots and reserves; MWL did not exercise its option to purchase all of the flood plain lots in 2002. As a result, the District owned approximately 30 lots within the District and in the flood plain. The District subsequently sold approximately 29 lots to various purchasers.

Upon the issuance of the District’s Series 1999 Refunding Bonds, the District satisfied all classes of claims, including the claims of the holders of the defaulted Series 1980 Bonds. From that point forward, the District has not been subject to the Plan.

Competitive Nature of Residential Housing Market

The housing industry in the Houston area is very competitive, and the District can give no assurance that the building programs which are planned by any homebuilder(s) will be continued or completed. The respective competitive position of the homebuilders listed herein and any other developer or homebuilder(s) which might attempt future home building or development projects in the District, the sale of developed lots or in the construction and sale of single-family residential units, are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

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

Vacant and Under Construction Lots

As of June 1, 2024, there were approximately 123 vacant developed lots within the completed subdivisions in the District. The District makes no representation as to when or if such lots will be sold to homebuilders or whether homes will be constructed on such lots. See “DEVELOPMENT OF THE DISTRICT” and “THE SYSTEM – 100-Year Flood Plain.”

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 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 procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer’s right to redeem the property within two (2) years of foreclosure for residential homestead and agricultural use property and within six (6) months of foreclosure for other 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. Moreover, the value of property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayer’s right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. See “TAXING PROCEDURES.”

Limitation to Registered Owners’ Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered owners of the Bonds (the “Registered Owners”) have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Orders do not specifically provide for remedies to protect and enforce the interest of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

Bankruptcy Limitation to Registered Owners’ Rights

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

are impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

A municipal utility district cannot be placed into bankruptcy involuntarily.

Marketability

The District has no understanding with the initial purchasers of the Bonds (the "Initial Purchasers") regarding the reoffering yields or prices of the Bonds (other than the hold-the-offering-price rule restrictions described in the Official Notices of Sale) and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

Following the issuance of the Bonds, \$12,290,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the waterworks, sanitary sewer, and drainage facilities (the "System") will remain authorized but unissued; \$4,105,000 principal amount of unlimited tax park bonds for the purpose of acquiring or constructing the park and recreational facilities serving the District will remain authorized but unissued; and \$13,487,500 principal amount of unlimited tax and revenue refunding bonds will remain authorized but unissued. The District reserves in the Bond Orders, the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including revenue notes, tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. 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. The District does not employ any formula with respect to assessed valuations, tax collections or other factors to limit the amount of parity bonds which it may issue. Additional bonds will be necessary to finance the ultimate development of the remaining lands within the District. See "DEVELOPMENT OF THE DISTRICT."

According to the Engineer, following the issuance of the Bonds, the District will have satisfied its obligations to the Developer. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt-to-property-valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

Approval of the Bonds

As required by law, engineering plans, specifications, and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. In addition, the Attorney General of Texas must approve the legality of the Bonds prior to delivery. Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the safety of the Bonds as an investment, nor have such authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

Continuing Compliance with Certain Covenants

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

Environmental Regulations

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

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

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

Air Quality Issues: Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston-Brazoria area (“HGB Area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under 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 management 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 management 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 management district's provision of water for human consumption is subject to extensive regulation as a public water system. Municipal management 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. Further, the EPA has established a NPDWR for six (6) Per- and Polyfluoroalkyl Substances ("PFAS"), which requires public water systems to perform certain monitoring and remediation measures. Public water systems may be subject to additional PFAS regulation in the future, which could increase the cost of constructing, operating, and maintaining water production and distribution facilities.

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) ("CGP"), with an effective date of March 5, 2023, 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. The CGP 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 management district must comply may have an impact on the municipal management district's ability to obtain and maintain compliance with TPDES permits.

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 Permit, if the District's inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

In 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. Subsequently, the EPA and USACE issued a final rule amending the definition of “waters of the United States” under the CWA to conform with the Supreme Court’s decision.

While the *Sackett* decision and subsequent regulatory action 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 management districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

Potential Impact of Natural Disaster

The District could be impacted by a natural disaster such as wide-spread fires, earthquakes, or weather events such as hurricanes, tornados, tropical storms, or other severe weather events that could produce high winds, heavy rains, hail, and flooding. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District’s tax rates. See “TAXING PROCEDURES – Valuation of Property for Taxation and “ – Tax Exemption for Property Damaged by Disaster.”

Certain qualified taxpayers, including owners of residential homesteads, located within a designated disaster area or emergency area and whose property has been damaged as a direct result of the disaster or emergency, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction, such as the District, if the taxpayer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date. Additionally, the Property Tax Code authorizes a taxing jurisdiction such as the District, solely at the jurisdiction’s discretion to adopt a similar installment payment option for taxes imposed on property that is located within a designated disaster area or emergency area and is owned or leased by certain qualified business entities, regardless of whether the property has been damaged as a direct result of the disaster or emergency.

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

Extreme Weather Events

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.

On August 25, 2017, Hurricane Harvey made landfall on the Texas Gulf Coast. The Houston area, including the County, sustained widespread rain damage and flooding as a result of Hurricane Harvey’s landfall, and historic levels of rainfall during the succeeding four days.

According to the Engineer (herein defined), the District’s water, sanitary sewer, and drainage facilities did not sustain any damage as a result of Hurricane Harvey, and there was no interruption of water and sewer service. Furthermore, according to the Developer and the Engineer, no homes in the District experienced flooding or structural damage. The District cannot predict the effect that additional extreme weather events may have upon the District and the Gulf Coast. Additional extreme weather events have the potential to cause damage within the District and along the Gulf Coast generally that could have a negative effect on taxable assessed valuations

in the District and the economy of the District and the region. See “TAXING PROCEDURES – Valuation of Property for Taxation.”

Specific Flood Type Risks

The District may be subject to the following 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.

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 on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

Changes in Tax Legislation

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

Bond Insurance Risk Factors

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

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

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

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

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

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

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

THE BONDS

General

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

The Bonds are dated August 1, 2024 (the "Dated Date"), and will accrue interest from the date of delivery, which is expected to be on or about August 14, 2024 (the "Date of Delivery"), with interest payable on March 1, 2025, and each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully registered bonds maturing on September 1 of the years shown on the inside cover of this Official Statement. Principal of the Bonds will be payable to the Registered Owners (herein defined) at maturity or redemption upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to Registered Owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the "Record Date") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Book-Entry-Only System

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

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (the “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 (the “Indirect Participants,” and together with the Direct Participants, the “Participants”). DTC has a rating of AA+ from S&P Global Ratings. The DTC rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Successor Paying Agent/Registrar

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

Registration, Transfer and Exchange

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

Funds

The Bond Orders confirm the creation of a fund for debt service on the Bonds (the "Debt Service Fund"). The Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds, the Bonds, and any additional unlimited tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds, the Bonds, and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Outstanding Bonds, the Bonds, and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Redemption Provisions

Optional Redemption: Bonds maturing on September 1, 2031, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2030, or on any date thereafter. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the series and maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for

redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption: The Utility Bonds maturing on September 1, 2039 are term bonds (the “Utility Term Bonds” and, together with the Utility Term Bonds, the “Term Bonds”), and shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the Mandatory Redemption Date, and in the principal amount set forth in the following schedule:

\$400,000 Utility Term Bonds Maturing on September 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2038	\$ 195,000
September 1, 2039 (Maturity)	\$ 205,000

The Park Bonds maturing on September 1 in the years 2033, 2035, 2037, 2039, 2041, 2043, 2045 and 2047 are term bonds (the “Park Term Bonds”), and shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), and in the principal amount set forth in the following schedule:

\$135,000 Park Term Bonds Maturing on September 1, 2033

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2032	\$ 65,000
September 1, 2033 (Maturity)	\$ 70,000

\$145,000 Park Term Bonds Maturing on September 1, 2035

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2034	\$ 70,000
September 1, 2035 (Maturity)	\$ 75,000

\$165,000 Park Term Bonds Maturing on September 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2036	\$ 80,000
September 1, 2037 (Maturity)	\$ 85,000

\$175,000 Park Term Bonds Maturing on September 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2038	\$ 85,000
September 1, 2039 (Maturity)	\$ 90,000

\$195,000 Park Term Bonds Maturing on September 1, 2041

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2040	\$ 95,000
September 1, 2041 (Maturity)	\$ 100,000

\$215,000 Park Term Bonds Maturing on September 1, 2043

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2042	\$ 105,000
September 1, 2043 (Maturity)	\$ 110,000

\$235,000 Park Term Bonds Maturing on September 1, 2045

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2044	\$ 115,000
September 1, 2045 (Maturity)	\$ 120,000

\$255,000 Park Term Bonds Maturing on September 1, 2047

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2046	\$ 125,000
September 1, 2047 (Maturity)	\$ 130,000

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

Mutilated, Lost, Stolen or Destroyed Bonds

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

Authority for Issuance

At various elections held within the District, voters of the District have authorized the District's issuance of: \$27,420,000 principal amount of unlimited tax and revenue bonds and/ or unlimited tax bonds for the purpose of acquiring or constructing the System; \$6,000,000 principal amount of unlimited tax park bonds for the purpose of acquiring or constructing park and recreational facilities serving the District; and \$13,612,500 principal amount of unlimited tax and revenue bonds for the purpose of refunding bonds issued by the District for the System.

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution and the general laws of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended; (ii) elections held within the District on January 20, 1979 and May 1, 2021 for the Utility Bonds and an election held within the District on May 6, 2023 for the Park Bonds; (iii) the Bond Orders; and (iv) an order of the TCEQ.

Outstanding Bonds

The District has previously issued the Series 1980 Bonds; \$2,035,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds and Refunding Bonds, Series 1999; \$1,515,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2012; \$3,855,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2018; \$1,865,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2020; and \$3,020,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2022. As of the date of delivery of the Bonds, \$8,235,000 principal amount of such bonds previously issued will remain outstanding (the "Outstanding Bonds").

Source of Payment

The Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Orders, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, and certain fees. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund and used solely to pay principal of and interest on the Bonds, and additional bonds payable from taxes which may be issued.

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

Issuance of Additional Debt

The District may issue additional bonds with the approval of the TCEQ necessary to provide improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the District's issuance of \$27,420,000 principal amount of unlimited tax and revenue bonds and/or unlimited tax bonds for the purpose of acquiring or constructing the System; \$6,000,000 principal amount of unlimited tax park bonds for the purpose of acquiring or constructing park and recreational facilities in the District; and \$13,612,500 principal amount of unlimited tax and revenue bonds for the refunding of bonds issued by the District for the System; and could authorize additional amounts.

The Utility Bonds represent the sixth series of bonds to be issued by the District for the construction of the System. After issuance of the Bonds, the following principal amounts of unlimited tax and revenue bonds and/or unlimited tax bonds will remain authorized but unissued: \$12,290,000 for the System; \$4,105,000 for park bonds; and \$13,487,500 for refunding bonds issued for the System. The District may also issue any additional bonds as may hereafter be approved by both the Board and voters of the District as well as certain additional bonds, revenue bonds, special project bonds, and other obligations as described in the Bond Orders. The Bond Orders impose no limitation on the amount of additional parity bonds which may be issued by the District.

According to the Engineer, following the issuance of the Bonds, the District will have satisfied its obligations to the Developer.

The Park Bonds represent the first series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing park and recreational facilities. The principal amount of any additional bonds issued by the District for constructing and/or acquiring park and recreational facilities may not exceed one percent (1%) of the District's certified taxable assessed valuation, unless the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent (1%) but not three percent (3%) of the value of the taxable property in the District. Current law may be changed in a manner to increase the amount of bonds that may be issued as related to a percentage of the value of taxable property for such purposes.

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

No Arbitrage

The District will certify, on the date of delivery of the Bonds, that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all

or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

Annexation

The District lies within the extraterritorial jurisdiction of the City, and may be annexed by the City under certain circumstances. Under Texas law, with certain exceptions, annexation of land by the City is subject to three procedures that allow for annexation: (i) on request of a landowner; (ii) for areas with a population of less than 200, by petition of voters and, if voter petitioners do not own more than 50% of the land in the area, by petition of a majority of the property owners in the area; or (iii) for areas with a population of 200 or more, by election of voters and, if voters do not own more than 50% of the land in the area, by petition of a majority of the property owners in the area. However, the foregoing provisions do not apply to areas that are subject to a Strategic Partnership Agreement ("SPA") under Section 43.0751, Texas Local Government Code. The District has not entered into a SPA with the City.

If the District is annexed, the City must assume the District's assets and obligations (including any outstanding bonds) and dissolve the District. Annexation of property by the City is a policy-making matter within the discretion of the governing body of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur.

Consolidation

The District has the legal authority to consolidate with other districts, thereby consolidating its assets (such as its cash and its water and wastewater systems) and its liabilities (which would include the Bonds) with the assets and liabilities of the district or districts with which it is consolidating. No representation is made concerning the likelihood of consolidation.

Defeasance

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

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

notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Amendments to the Bond Orders

The District may, without the consent of or notice to any Registered Owners, amend the Bond Orders in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Orders, provided that, without the consent of the Registered Owners of all of the Bonds affected, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, change the place or places at, or the coin or currency in which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Orders relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Orders cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may, in the exercise of its police power, make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Registered Owners' Remedies

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

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

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Use and Distribution of Utility Bond Proceeds

Proceeds of the Utility Bonds will be used to (i) reimburse the Developer (herein defined) for water, sanitary sewer and drainage improvements to serve the remainder of Hills of Westlake, Section 2 and Hills of Westlake, Section 3 and engineering, geotechnical and testing fees related to such improvements; (ii) fund land acquisition costs; (iii) pay developer’s interest; and (iv) pay the costs of the issuance of the Bonds.

I. CONSTRUCTION COSTS

Water, Sewer & Drainage Facilities Serving:	
Remaining Costs for Hills of Westlake, Section Two.....	\$ 230,739
Hills of Westlake, Section Three.....	2,380,636
Engineering and Testing.....	326,916
Storm Water Pollution Prevention Planning.....	59,740
Water Meter Vault.....	90,120
Land Acquisition Costs.....	512,310
Tap Fees to the City.....	3,300
Total Construction Costs.....	\$ 3,603,761

II. NON-CONSTRUCTION COSTS

Legal Fees.....	\$ 85,000
Fiscal Agent Fees.....	85,000
Developer Interest (Estimated at 5.75%).....	276,750
Bond Discount (a).....	126,075
Bond Issuance Expenses.....	34,614
Bond Application Report Costs.....	22,500
Attorney General Fee.....	4,250
TCEQ Bond Issuance Fee.....	10,625
Contingency (a).....	1,425
Total Non-Construction Costs.....	\$ 646,239

TOTAL BOND ISSUE REQUIREMENT..... \$ 4,250,000

(a) Contingency represents the difference and the estimated amount of Bond discount.

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for approved uses in accordance with the rules of the TCEQ. In the instance that the actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Utility Bonds should be sufficient to pay the costs of the above described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

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Use and Distribution of Park Bond Proceeds

Proceeds of the Park Bonds will be used to (i) pay for park construction costs and engineering, geotechnical and testing fees related to such improvements; (ii) fund land acquisition costs; and (iii) pay the costs of the issuance of the Bonds.

I. CONSTRUCTION COSTS

Phase One Park.....	\$	960,230
Engineering, Landscape Architecture, Etc.....		242,938
Land Acquisition Costs.....		361,949
Contingencies.....		144,035
Total Construction Costs.....	\$	1,709,152

II. NON-CONSTRUCTION COSTS

Legal Fees.....	\$	37,900
Fiscal Agent Fees.....		37,900
Bond Discount.....		56,850
Bond Issuance Expenses.....		24,067
Bond Application Report Costs.....		22,500
Attorney General Fee.....		1,895
TCEQ Bond Issuance Fee.....		4,737
Total Non-Construction Costs.....	\$	185,849

TOTAL BOND ISSUE REQUIREMENT..... \$ 1,895,000

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for approved uses in accordance with the rules of the TCEQ. In the instance that the actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Park Bonds should be sufficient to pay the costs of the above described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

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THE DISTRICT

Authority

The District is a political subdivision of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created by the Texas Water Rights Commission, predecessor of the TCEQ, on June 27, 1978, as a municipal utility district. The District is vested with all the rights, privileges, authority and functions conferred by the laws of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water, among other things. The District may also provide solid waste collection and disposal service and, subject to certain limitations, operate and maintain recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ and located exclusively within the extraterritorial jurisdiction of the City.

Description

The District contains 390.37 acres and is located in the central part of the County approximately 5.5 miles west of the central business district of the City adjacent to Texas State Highway 105. The District is located north of State Highway 105, to the west of FM 3083, south of Longmire Road, and to the east of the San Jacinto River. The District lies entirely within the exclusive extraterritorial jurisdiction of the City and is located within Conroe Independent School District.

Management of the District

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

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Stacy Gehring	President	2026
William Thomas III	Vice President	2028
Brent Fannin	Secretary	2026
Darrell L. Webster	Assistant Secretary	2028
Natalie Gigliotta	Assistant Secretary	2026

Investment Policy

The District has adopted an Investment Policy (the "Investment Policy") as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The District's goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Investment Policy. The Investment Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation and secured by collateral authorized by the Act, and in TexPool and TexStar, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the portfolio.

Consultants

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

Tax Assessor/Collector: The tax assessor/collector for the District is Bob Leared Interests (the "Tax Assessor/Collector").

Bookkeeper: The District's bookkeeper is Protocol Bookkeeping, Inc. (the "Bookkeeper").

System Operator: The District's operator is Hays Utility North.

Auditor: The District has engaged McCall Gibson Swedlund Barfoot PLLC to audit its financial statements for the fiscal year ended December 31, 2023. Said financial statements are attached hereto as "APPENDIX A."

Engineer: The District's engineer is Vogt Engineering, LP. (the "Engineer").

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

Disclosure Counsel: McCall, Parkhurst & Horton L.L.P., Houston, Texas, serves as Disclosure Counsel to the District ("Disclosure Counsel"). The fees of Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

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

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DEVELOPMENT OF THE DISTRICT

Status of Development within the District

To date, approximately 202.06 acres within the District have been developed as 665 single-family lots in the following single-family residential subdivisions: La Salle Crossing, Section 1 and Hills of Westlake, Sections 1, 2, and 3. As of June 1, 2024, development within the District consisted of approximately 526 completed homes (526 occupied), approximately 16 homes under construction and approximately 123 vacant, developed lots. The remainder of the lands within the District includes approximately 28.07 acres of park and open space, approximately 10.45 acres of commercial reserves, approximately 12.17 undeveloped but developable acres and approximately 137.62 undevelopable acres for floodway and floodplain.

The table below summarizes the status of development and land use within the District as of June 1, 2024.

<u>Subdivision</u>	<u>Acres</u>	<u>Lots</u>	<u>Homes</u>			
			<u>Completed Homes</u>	<u>Under Construction</u>	<u>Vacant Lots</u>	
La Salle Crossing, Section 1	89.16	272	242	0	30	(a)
Hills of Westlake, Section 1	36.47	149	145	4	0	
Hills of Westlake, Section 2	28.69	120	120	0	0	
Hills of Westlake, Section 3	47.74	124	19	12	93	
Total Developed	202.06	665	526	16	123	
Developable Acreage	12.17					
Parks and Open Space	28.07					
Commercial Reserves (b)	10.45					
Undevelopable Acreage	<u>137.62</u>					
Total	390.37					

(a) See "THE SYSTEM – 100-Year Flood Plain."

(b) Includes a 100,000 square-foot Tri-Supply warehouse facility. See "TAX DATA – Principal Taxpayers."

Homebuilder within the District

D.R. Horton is the only active homebuilder within the District. New homes being marketed in the District range in price from approximately \$311,990 to over approximately \$384,380 and in size from approximately 1,600 to over approximately 3,400 square feet. See "TAX DATA – Principal Taxpayers."

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**Photographs Taken Within The District
(Taken June 2024)**



**Photographs Taken Within The District
(Taken June 2024)**



PRINCIPAL LANDOWNER/DEVELOPER

Role of the Developer

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

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

Neither the Developer, nor any of its affiliate entities, are obligated to pay the principal of or interest on the Bonds. Furthermore, neither the Developer, nor any of its affiliate entities, have a binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by the Developer or its affiliate entities should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

The Developer

The current developer and principal owner of land in the District is Hills of Westlake Ltd. (the "Developer"), a Texas limited partnership. Compass Land Development LLC is the general partner, and Nino Corbett and Fleet Family Investments, L.P. are the limited partners. The Developer and its related entities currently own approximately 39.1 acres (including 32 vacant, developed lots) in the District.

Development Financing

The Developer has financed the development of a portion of the land within the District with the outstanding loan detailed below:

The Developer has obtained a loan for approximately \$4,950,750 from Plains Capital Bank. Such loan bears interest at 5.0% and matures on March 13, 2025. The loan is secured by lots, land within Hills of Westlake, Section 3. The outstanding balance on the loan is \$1,350,750 as of June 1, 2024. According to the Developer, the Developer is in compliance with all material conditions of the loan.

THE SYSTEM

Regulation

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

Water Supply and Wastewater Treatment

The District owns and operates certain water distribution and wastewater collection lines in addition to a lift station and certain interconnect facilities hereafter defined. Pursuant to an agreement with the City, amended in 2005 and 2011 (the "Agreement"), the District purchases water from the City. Under the Agreement, the City financed the cost to connect the District to the City's water supply system (the "Interconnect Facilities"). The District has paid all costs owed to the City for the construction of the Interconnect Facilities.

The water delivered to the District by the City is metered, and the City bills the District monthly for water delivered. The District bills and collects from its residents for services based upon its current Rate Order.

In accordance with the Agreement, the District collects and delivers its wastewater to the City.

Storm Water Drainage

Natural drainage patterns generally slope from the District to the San Jacinto River. Storm-water runoff is collected by curb and gutter streets that tie into a system of underground storm sewer lines that flow into the outfall of the San Jacinto River.

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is 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 District's Engineer, approximately 97.44 acres of the District are located within the 100-year flood plain, as identified by the Federal Flood Insurance Administration Rate Map No. 48339C0505G dated August 18, 2014. The District previously owned approximately 30 lots in the 100-year flood plain. A developer purchased 19 lots and obtained a Letter of Map Revision ("LOMR") from FEMA to amend the flood plain map and thereby making the lots developable. See "RISK FACTORS – Atlas 14." The District subsequently sold 10 additional lots to various purchasers, and still owns the one remaining lot.

Conservation District

The District is located within the boundaries of the Lone Star Groundwater Conservation District (the “LSGCD”), which was created by the Texas Legislature to conserve, protect, and enhance the groundwater resources of the County. The LSGCD has adopted rules and a regulatory plan that required groundwater users within the County, including the City, from which the District receives its water supply, to reduce groundwater usage by thirty percent (30%) by January 1, 2016. To finance its operations, LSGCD bills permit holders, including the City, an amount currently equal to \$0.085 per 1,000 gallons of water pumped from permit wells. The amount billed by the LSGCD is subject to future increases.

In order to meet the requirements of the regulatory plan of LSGCD, San Jacinto River Authority (“SJRA”) entered into a contract with LSGCD to develop an overall groundwater reduction plan (“GRP”). In turn, the City entered into agreements with SJRA under which the water supply facilities of the two entities are included in the SJRA’s GRP. SJRA partially converted to surface water sources in September of 2015 and has created a new, separate, non-profit operating division to implement a groundwater reduction plan and treated surface water system for substantially all of the County, including the District. The direct costs to SJRA’s groundwater reduction plan division for the first phase of such conversion to surface water sources was approximately \$500,000,000, which will be paid for through pumpage fees charged to the participants, including the District. Currently, the SJRA charges a fee of \$2.99 per 1,000 gallons of groundwater pumped. Additionally, under such rate order, SJRA charges a surface water rate of \$3.41 per 1,000 gallons of surface water delivered. The amount billed per 1,000 gallons by the SJRA is subject to increase in future years.

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DISTRICT DEBT

General

2023 Certified Taxable Assessed Valuation	\$147,228,548	(a)
2024 Preliminary Taxable Assessed Valuation.....	\$158,438,264	(b)
Estimate of Taxable Assessed Valuation as of June 1, 2024.....	\$170,146,125	(c)
Direct Debt:		
The Outstanding Bonds.....	\$ 8,235,000	
The Utility Bonds	4,250,000	
The Park Bonds	<u>1,895,000</u>	
Total Direct Debt.....	\$ 12,485,000	
Estimated Overlapping Debt.....	<u>\$ 6,318,564</u>	(d)
Total Direct and Estimated Overlapping Debt.....	\$ 18,803,564	(d)
Direct Debt Ratios:		
As a Percentage of 2024 Preliminary Taxable Assessed Valuation.....	7.88	%
Estimate of Taxable Assessed Valuation as of June 1, 2024	7.34	%
Direct and Estimated Overlapping Debt Ratios:		
As a Percentage of 2024 Preliminary Taxable Assessed Valuation.....	11.87	%
Estimate of Taxable Assessed Valuation as of June 1, 2024	11.05	%
Debt Service Fund Balance (as of June 6, 2024)	\$ 834,026	(e)
Operating Fund Balance (as of June 6, 2024)	\$ 1,555,409	
Capital Projects Fund Balance (as of June 6, 2024)	\$ 299,326	
2023 Tax Rate:		
Debt Service	\$0.50	
Maintenance and Operations	<u>\$0.43</u>	
Total.....	\$0.93	
Average Annual Debt Service Requirement (2025-2047).....	\$ 919,571	(f)
Maximum Annual Debt Service Requirement (2041).....	\$ 1,007,673	(f)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay		
Average Annual Debt Service Requirement (2025-2047)		
Based on 2024 Preliminary Taxable Assessed Valuation at 95% Tax Collections....	\$0.62	
Based on Estimate of Taxable Assessed Valuation as of June 1, 2024 at 95% Tax Collections	\$0.57	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay		
Maximum Annual Debt Service Requirement (2041)		
Based on 2024 Preliminary Taxable Assessed Valuation at 95% Tax Collections....	\$0.67	
Based on Estimate of Taxable Assessed Valuation as of June 1, 2024, at 95% Tax Collections	\$0.63	

- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2023, provided by the Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Appraisal District as the preliminary value as of January 1, 2024. This value represents the preliminary determination of the taxable value in the District as of January 1, 2024, provided by the Appraisal District. No taxes will be levied on this preliminary value, which is subject to review and downward adjustment. See "TAXING PROCEDURES."
- (c) Provided by the Appraisal District for information purposes only. This estimate reflects the addition of the taxable value from new construction within the District from January 1, 2024, to June 1, 2024. No taxes will be levied on this estimate. See "TAX DATA" and "TAXING PROCEDURES."
- (d) See "DISTRICT DEBT - Direct and Estimated Overlapping Debt Statement."
- (e) Neither Texas law nor the Bond Orders require that the District maintain any particular sum in the Debt Service Fund.
- (f) Requirement of debt service on the Outstanding Bonds and the Bonds. See "Debt Service Requirement Schedule" herein.

Debt Service Requirement Schedule

The following schedule sets forth the debt service on the Outstanding Bonds plus the principal and interest requirements on the Bonds.

Year Ending 12/31	Outstanding Debt Service	The Bonds				Total Debt Service
		Plus: The Utility Bonds		Plus: The Park Bonds		
		Principal	Interest	Principal	Interest	
2024	\$ 406,449	\$ -	\$ -	\$ -	\$ -	\$ 406,449
2025	562,486	90,000	188,788	40,000	85,925	967,199
2026	566,586	110,000	174,425	50,000	79,450	980,461
2027	559,874	115,000	167,275	50,000	76,200	968,349
2028	562,830	120,000	159,800	55,000	72,950	970,580
2029	560,158	130,000	152,600	55,000	69,375	967,133
2030	562,001	135,000	147,400	60,000	65,800	970,201
2031	557,929	140,000	142,000	65,000	63,400	968,329
2032	559,785	145,000	136,400	65,000	60,800	966,985
2033	561,141	155,000	130,600	70,000	58,200	974,941
2034	558,276	160,000	124,400	70,000	55,400	968,076
2035	570,006	170,000	118,000	75,000	52,600	985,606
2036	570,601	175,000	111,200	80,000	49,600	986,401
2037	565,401	185,000	104,200	85,000	46,400	986,001
2038	569,789	195,000	96,800	85,000	43,000	989,589
2039	568,439	205,000	89,000	90,000	39,600	992,039
2040	576,330	215,000	80,800	95,000	36,000	1,003,130
2041	578,273	225,000	72,200	100,000	32,200	1,007,673
2042	574,323	235,000	63,200	105,000	28,200	1,005,723
2043	574,833	245,000	53,800	110,000	24,000	1,007,633
2044	324,513	255,000	44,000	115,000	19,600	758,113
2045	201,213	270,000	33,800	120,000	15,000	640,013
2046	205,750	280,000	23,000	125,000	10,200	643,950
2047	-	295,000	11,800	130,000	5,200	442,000
	<u>\$ 11,896,984</u>	<u>\$ 4,250,000</u>	<u>\$ 2,425,488</u>	<u>\$ 1,895,000</u>	<u>\$ 1,089,100</u>	<u>\$ 21,556,571</u>

Average Annual Debt Service Requirement (2025-2047).....\$919,571
 Maximum Annual Debt Service Requirement (2041).....\$1,007,673

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Direct and Estimated Overlapping Debt Statement

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

Taxing Jurisdiction	Outstanding Debt April 30, 2024	Overlapping	
		Percent	Amount
Conroe Independent School District	\$2,014,950,000	0.27%	\$ 5,406,012
Lone Star College System District	542,435,000	0.05	258,125
Montgomery County	417,980,000	0.16	654,427
Total Estimated Overlapping Debt			\$ 6,318,564
Direct Debt (a)			\$ 12,485,000
Total Direct and Estimated Overlapping Debt			\$ 18,803,564

(a) Includes the Bonds and the Outstanding Bonds.

Debt Ratios

Ratios of Direct Debt:

As a Percentage of 2024 Preliminary Taxable Assessed Valuation.....	7.88 %
Estimate of Taxable Assessed Valuation as of June 1, 2024	7.34 %

Ratios of Direct and Estimated Overlapping Debt:

As a Percentage of 2024 Preliminary Taxable Assessed Valuation.....	11.87 %
Estimate of Taxable Assessed Valuation as of June 1, 2024	11.05 %

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General Fund Operating Statement

The following is a summary of the District's general fund activity for the last five fiscal years. The summary has been prepared by the Financial Advisor based upon information obtained from the District's audited financial statements. Reference is made to such statements for further and more complete information. See "APPENDIX A."

Revenues	Fiscal Year Ended December 31,				
	2023	2022	2021	2020	2019
Property Taxes	\$ 483,816	\$ 373,936	\$ 417,574	\$ 375,769	\$ 248,716
Water Service	208,638	176,882	175,652	131,768	123,144
Wastewater Service	261,428	237,849	204,470	182,767	159,267
San Jacinto River Authority Fees	174,378	142,034	108,668	108,936	86,589
Tap Connection and Inspection Fees	35,719	182,235	76,422	149,807	81,500
Investment and Miscellaneous Revenues	74,423	45,361	9,883	65,872	29,603
Total	\$ 1,238,402	\$ 1,158,297	\$ 992,669	\$ 1,014,919	\$ 728,819
Expenditures					
Professional Fees	\$ 113,647	\$ 108,206	\$ 108,473	\$ 105,942	\$ 95,701
Contracted Services	149,813	146,588	119,301	110,802	76,904
Purchased Water Service	336,734	307,975	241,540	246,547	202,476
Purchased Wastewater Service	296,536	254,956	225,601	173,277	114,720
Repairs and Maintenance	95,713	128,747	110,637	107,595	79,805
Other	93,274	143,803	126,416	157,248	96,299
Capital Outlay	86,054	-	-	33,372	-
Total	\$ 1,171,771	\$ 1,090,275	\$ 931,968	\$ 934,783	\$ 665,905
NET REVENUES (Deficit)	\$ 66,631	\$ 68,022	\$ 60,701	\$ 80,136	\$ 62,914
Other Financing Sources (Uses):					
Transfer In (Out)	\$ -	\$ 80,000	\$ 38,579	\$ 27,000	\$ 92,520
Beginning fund balance	\$ 939,506	\$ 791,484	\$ 692,204	\$ 585,068	\$ 429,634
Ending fund balance	\$ 1,006,137	\$ 939,506	\$ 791,484	\$ 692,204	\$ 585,068

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the Appraisal District. The Appraisal

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

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election, which the District would be required to call upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

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

Freeport Goods and Goods-in-Transit Exemption: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating purposes, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within one hundred seventy-five (175) days. Freeport goods are exempt from taxation by the District. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax year 2011 and prior applicable years, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. The District has taken action to tax Goods-in-Transit. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property.

Tax Abatement

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

Valuation of Property for Taxation

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

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

Tax Exemption for Property Damaged by Disaster

The Texas 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 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 timely petition for review in district court. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

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

Tax Payment Installments

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

Additionally, the Texas Tax Code authorizes a taxing jurisdiction such as the District, solely at the jurisdictions discretion, to adopt a similar installment payment option for taxes imposed on property that is located within a designated disaster area or emergency area, and is owned or leased by certain qualified business entities, regardless of whether the property has been damaged as a direct result of the disaster or emergency.

Levy and Collection of Taxes

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

portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and Interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) 65 years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in Installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Notice and Hearing Procedures

The Property Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayers referenda which could result in the repeal of certain tax increases. The District is required to publish a notice of a public hearing regarding the tax rate proposed to be levied in the current year and comparing the proposed tax rate to the tax rate set in the preceding year. See "Rollback of Operation and Maintenance Tax Rate" below.

Rollback of Operation and Maintenance Tax Rate

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

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

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

Developing Districts: Districts that do not meet the classification of a Special Taxing Unit or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax 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 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 tax year on a residence homestead appraised at the average appraised value of a resident homestead in the District in that year, subject to certain homestead exemptions.

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

District's Rights in the Event of Tax Delinquencies

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

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

The Effect of FIRREA on Tax Collections of the District

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution. Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed. To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

TAX DATA

General

All taxable property within the District is subject to the assessment, levy, and collection by the District of a continuing, direct annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds. See “TAXING PROCEDURES.” In the Bond Orders, the Board covenants to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. See “THE BONDS” and “RISK FACTORS.” In 2023, the District levied a maintenance and operation tax of \$0.43 per \$100 of assessed valuation and a debt service tax of \$0.50 per \$100 of assessed valuation.

Tax Rate Limitation

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

Debt Service Taxes

The Board covenants in the Bond Orders to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. For the 2023 tax year, the District levied a debt service tax of \$0.50 per \$100 of assessed valuation.

Maintenance and Operation Taxes

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance and operation of the District’s improvements if such maintenance and operation tax is authorized by vote of the District’s electors. The Board is authorized by the District’s voters to levy such maintenance and operations tax in an amount not to exceed \$1.50 per \$100 of assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future. For the 2023 tax year, the District levied a total tax rate of \$0.43 per \$100 of assessed valuation for maintenance and operation of District improvements. See “Tax Rate Distribution” below.

Tax Exemption

As discussed in the section entitled “TAXING PROCEDURES” herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation.

Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that will either: (1) become delinquent on or after February 1 of a year, but not later than June 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Property Tax Code.

Historical Tax Collections

The following table illustrates the tax collection history of the District for the 2019–2023 tax years:

Year	Assessed Valuation	Tax Rate per \$100	Tax Levy	% of Current Collections	Tax Year Ended 9/30	Collections as 5/31/2024
2019	\$69,360,119	\$1.070	\$742,153	99.72%	2020	99.72%
2020	80,155,221	1.070	857,661	99.56%	2021	99.56%
2021	95,098,449	1.015	965,249	99.61%	2022	99.70%
2022	119,127,772	0.960	1,143,627	99.34%	2023	99.31%
2023	147,228,548	0.930	1,369,226	97.62%	2024	97.97%

Tax Rate Distribution

The following table sets out the components of the District’s tax levy for each of the 2019–2023 tax years.

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Debt Service	\$0.500	\$ 0.550	\$0.620	\$ 0.545	\$ 0.530
Maintenance and Operations	<u>0.430</u>	<u>0.410</u>	<u>0.395</u>	<u>0.525</u>	<u>0.540</u>
Total	<u>\$0.930</u>	<u>\$ 0.960</u>	<u>\$1.015</u>	<u>\$ 1.070</u>	<u>\$ 1.070</u>

Analysis of Tax Base

The following represents the types of property comprising the District taxable assessed value for each of the 2019–2023 tax years.

Type of Property	2023 Taxable Assessed Valuation	2022 Certified Taxable Assessed Valuation	2021 Certified Taxable Assessed Valuation	2020 Certified Taxable Assessed Valuation	2019 Certified Taxable Assessed Valuation
Land	\$ 29,997,470	\$ 30,291,570	\$ 19,818,030	\$ 18,956,370	\$ 12,894,950
Improvements	133,216,640	100,487,970	78,048,780	63,764,070	58,798,260
Personal Property	702,042	845,073	522,113	716,501	776,853
Exemptions	<u>(16,687,604)</u>	<u>(12,496,841)</u>	<u>(3,290,474)</u>	<u>(3,281,720)</u>	<u>(3,109,944)</u>
Total	<u>\$147,228,548</u>	<u>\$ 119,127,772</u>	<u>\$ 95,098,449</u>	<u>\$ 80,155,221</u>	<u>\$ 69,360,119</u>

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2023:

Taxpayer	Property Type	2023 Tax Year	% of Tax Roll
Ray Mart, Inc. (a)	Land & Improvements	\$ 4,699,810	3.19%
Hills of Westlake Ltd. (b)	Land & Improvements	737,510	0.50%
ALF Mar LLC	Land & Improvements	675,390	0.46%
FKH SFR Propco I LP	Land & Improvements	660,670	0.45%
Entergy Texas Inc.	Personal Property	563,650	0.38%
Saalwaechter Inc.	Land & Improvements	540,050	0.37%
Empowering Properties Tex	Land & Improvements	505,600	0.34%
Individual	Land & Improvements	504,990	0.34%
Individual	Land & Improvements	480,080	0.33%
Individual	Land & Improvements	470,950	0.32%
Total		<u>\$ 9,838,700</u>	<u>6.68%</u>

(a) See “DEVELOPMENT OF THE DISTRICT – Status of Development within the District.”

(b) See “PRINCIPAL LANDOWNER/DEVELOPER.”

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements on the Outstanding Bonds and the Bonds if no growth in the District’s tax base occurs beyond the District’s taxable assessed valuation as of January 1, 2024 (\$147,228,548) or the Estimate of Taxable Assessed Valuation as of June 1, 2024 (\$170,146,125). The calculations assume collection of 95% of taxes levied, the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirement (2025-2047).....	\$919,571
Debt Service Tax Rate of \$0.62 on the 2024 Preliminary Taxable Assessed Valuation produces	\$933,201
Debt Service Tax Rate of \$0.57 on the Estimate of Taxable Assessed Valuation	
as of June 1, 2024 produces.....	\$921,341
Maximum Annual Debt Service Requirement (2041).....	\$1,007,673
Debt Service Tax Rate of \$0.67 on the 2024 Preliminary Taxable Assessed Valuation produces .	\$1,008,460
Debt Service Tax Rate of \$0.63 on the Estimate of Taxable Assessed Valuation	
as of June 1, 2024 produces	\$1,018,325

Estimated Overlapping Taxes

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

Set forth below is an estimation of all 2023 taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

<u>Taxing Jurisdiction</u>	<u>2023 Tax Rate</u>
The District	\$ 0.930000
Montgomery County, Texas	0.369600
Montgomery County Hospital District	0.049800
Montgomery County ESD No. 1	0.100000
Conroe Independent School District	0.962100
Lone Star College System	0.107600
Total Tax Rate	\$ 2.519100

LEGAL MATTERS

Legal Proceedings

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

Except as noted below, Bond Counsel did not take part in the preparation of this Official Statement. Bond Counsel has reviewed the information appearing in this Official Statement under the captions "THE DISTRICT - Authority," and "- Investment Policy," "THE BONDS" (except under the subheadings "Book-Entry-Only System," "- Use and Distribution of Utility Bond Proceeds," and "- Use and Distribution of Park Bond Proceeds"), "TAXING PROCEDURES," "LEGAL MATTERS - Legal Proceedings," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION," solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District or the Developer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

No-Litigation Certificate

The District will furnish to the Initial Purchasers a certificate, dated as of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their actual knowledge then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

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

TAX MATTERS

The delivery of the Bonds is subject to an opinion of Bond Counsel, to the effect that, assuming continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds, pursuant to Section 103 of the Code, and existing regulations, published rulings and court decision procedures, interest on the bonds (i) is excludable from the income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes and (ii) is not a specific preference item for purposes of the federal alternative minimum tax; however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of determining the alternative minimum tax imposed on corporations. The statutes, regulations, published rulings, and court decisions on which such opinion is based are subject to change.

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

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

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

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

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

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bond. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed

federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Tax Accounting Treatment of Original Issue Discount Bonds

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is entitled to be excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Qualified Tax-Exempt Obligations

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution’s investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for “qualified tax-exempt obligations,” which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as “qualified tax-exempt obligations” and (b) issued by a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District has designated the Bonds “qualified tax-exempt obligations” and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities subordinate to the District during calendar year 2024 is not expected to exceed \$10,000,000 and that the District and entities subordinate to the District have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during calendar year 2024.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Orders, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe these agreements 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, as well as timely notice of specified events, to the Municipal Securities Rulemaking Board or any successor to its function as a repository (the “MSRB”), through its Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated with respect to the District includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement included under the headings "DISTRICT DEBT" (except for the subheading "- Direct and Estimated Overlapping Debt Statement"), "TAX DATA," and in "APPENDIX A." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2024. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 of the Securities Exchange Act (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in "APPENDIX A" or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Event Notices

The District will provide timely notices of certain specified 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 IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of 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, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, 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 any such financial obligation of the District, any of which reflect financial difficulties. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Orders make 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 EMMA

The District has agreed to provide the foregoing updated information only to the MSRB. The District is required to file its continuing disclosure information using EMMA, which is the format currently prescribed by the MSRB. The MSRB makes the information available to the public without charge through the EMMA 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 Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance with Prior Undertaking

The District is not aware of any failure to comply, in the last five years, in all material respects with all continuing disclosure agreements made by them in accordance with the Rule.

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the Developer, the District's records, the Engineer, the Tax Assessor/Collector, the Appraisal District, and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The District's audited financial statements for the year ended December 31, 2023, were prepared by McCall Gibson Swedlund Barfoot PLLC, and have been included herein as "APPENDIX A." McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Preliminary Official Statement.

Experts

The information contained in this Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE BONDS – Use and Distribution of Utility Bond Proceeds," "THE BONDS – Use and Distribution of Park Bond Proceeds," "THE

DISTRICT – Description,” “DEVELOPMENT OF THE DISTRICT – Status of Development within the District,” and “THE SYSTEM” has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as an expert in the field of civil engineering.

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

Certification as to Official Statement

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

Updating of Official Statement

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

Forward-Looking Statements

The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statement regarding the District’s expectations, hopes, intentions, or strategies for the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates, possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and therefore, there can be no assurance that any forward-looking statements included in this Official Statement would prove to be accurate.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements, and other sources that are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 42 as of the date shown on the cover page hereof.

/s/ Stacy Gehring
President, Board of Directors
Montgomery County Municipal Utility District No. 42

ATTEST:

/s/ Brent Fannin
Secretary, Board of Directors
Montgomery County Municipal Utility District No. 42

APPENDIX A
Financial Statements of the District

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-8
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	9-12
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	13
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	14-15
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	16
NOTES TO THE FINANCIAL STATEMENTS	17-31
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	33
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	35-37
GENERAL FUND EXPENDITURES	38
INVESTMENTS	39
TAXES LEVIED AND RECEIVABLE	40-41
LONG-TERM DEBT SERVICE REQUIREMENTS	42-45
CHANGES IN LONG-TERM BOND DEBT	46-47
COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	48-51
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	52-53

McCALL GIBSON SWEDLUND BARFOOT PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Municipal
Utility District No. 42
Montgomery County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 42 (the "District") as of and for the year ended December 31, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

May 2, 2024

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Management’s discussion and analysis of the financial performance of Montgomery County Municipal Utility District No. 42 (the “District”) provides an overview of the District’s financial activities for the fiscal year ended December 31, 2023. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets by \$107,151 as of December 31, 2023.

A portion of the District's net position reflects its net investment in capital assets which includes land, as well as water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding.

The table on the following page presents a comparative analysis of government-wide changes in net position for the current and prior years.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2023	2022	Change Positive (Negative)
Current and Other Assets	\$ 3,598,032	\$ 3,669,053	\$ (71,021)
Capital Assets (Net of Accumulated Depreciation)	6,517,364	6,279,857	237,507
Total Assets	\$ 10,115,396	\$ 9,948,910	\$ 166,486
Due to Developers	\$ 232,558	\$ 296,598	\$ 64,040
Bonds Payable	8,258,240	8,613,333	355,093
Other Liabilities	352,011	310,828	(41,183)
Total Liabilities	\$ 8,842,809	\$ 9,220,759	\$ 377,950
Deferred Inflows of Resources	\$ 1,379,738	\$ 1,149,869	\$ (229,869)
Net Position:			
Net Investment in Capital Assets	\$ (1,373,236)	\$ (1,577,033)	\$ 203,797
Restricted	242,641	265,216	(22,575)
Unrestricted	1,023,444	890,099	133,345
Total Net Position	\$ (107,151)	\$ (421,718)	\$ 314,567

The following table provides a summary of the District's operations for the years ended December 31, 2023, and December 31, 2022.

	Summary of Changes in the Statement of Activities		
	2023	2022	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,139,246	\$ 967,525	\$ 171,721
Charges for Services	680,163	739,000	(58,837)
Other Revenues	105,326	141,360	(36,034)
Total Revenues	\$ 1,924,735	\$ 1,847,885	\$ 76,850
Expenses for Services	1,610,168	2,027,578	417,410
Change in Net Position	\$ 314,567	\$ (179,693)	\$ 494,260
Net Position, Beginning of Year	(421,718)	(242,025)	(179,693)
Net Position, End of Year	\$ (107,151)	\$ (421,718)	\$ 314,567

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2023, were \$1,905,054, a decrease of \$354,111 from the prior year.

The General Fund fund balance increased by \$66,631, primarily due to property tax revenues and service revenues exceeding operating and administration costs.

The Debt Service Fund fund balance decreased by \$31,939, primarily due to the structure of the District's debt service requirements.

The Capital Projects Fund fund balance decreased by \$388,803 due to capital outlay paid from proceeds of bonds sold in prior year and surplus funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopts an unappropriated budget for the General Fund each year. Actual revenues were \$74,676 more than budgeted revenues and actual expenditures were \$8,043 more than budgeted expenditures which resulted in a positive variance of \$66,633. See the budget to actual comparison for more information.

CAPITAL ASSETS

Capital assets as of December 31, 2023, total \$6,517,364 (net of accumulated depreciation) and include land as well as the water, wastewater and drainage systems. Construction in progress includes the sanitary sewer pipe rehabilitation project.

Capital Assets At Year-End			
	2023	2022	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 755,292	\$ 755,292	\$
Construction in Progress	388,258		388,258
Capital Assets Subject to Depreciation:			
Water System	707,354	707,354	
Wastewater System	1,832,087	1,832,087	
Drainage System	4,244,376	4,244,376	
Less: Accumulated Depreciation	(1,410,003)	(1,259,252)	(150,751)
Total Net Capital Assets	\$ 6,517,364	\$ 6,279,857	\$ 237,507

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

LONG-TERM DEBT ACTIVITY

At the end of the current year, the District had total long-term debt payable of \$8,235,000. The changes in the debt position of the District during the fiscal year ended December 31, 2023, are summarized as follows:

Bond Debt Payable, January 1, 2023	\$ 8,590,000
Less: Bond Principal Retired	<u>(355,000)</u>
Bond Debt Payable, December 31, 2023	<u>\$ 8,235,000</u>

The District’s Series 2020 Bonds and Series 2022 Bonds carry insured ratings of “AA” by virtue of bond insurance issued by Build America Mutual Assurance Company and Assured Guaranty Municipal Corp., respectively. Credit enhanced ratings provided through bond insurance policies are subject to change based on changes to the ratings of the insurers.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for fiscal year 2024 projects a General Fund fund balance increase of \$32,000. Revenues are budgeted to be approximately \$1,585,000, while expenditures are budgeted to be approximately \$1,553,000.

CONTACTING THE DISTRICT’S MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Municipal Utility District No. 42, c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP, 1980 Post Oak Blvd., Suite 1380, Houston, Texas 77056.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2023

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 169,744	\$ 313,035
Investments	723,629	247,322
Receivables:		
Property Taxes	521,695	608,463
Penalty and Interest on Delinquent Taxes		
Service Accounts	59,967	
Land Acquired through Foreclosure	4,502	
Due from Other Funds	365,090	
Prepaid Costs	64,255	
Land and Land Improvements		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 1,908,882	\$ 1,168,820

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 863,099	\$ 1,345,878 970,951	\$	\$ 1,345,878 970,951
	1,130,158		1,130,158
	59,967	22,321	22,321
	4,502		59,967
	365,090	(365,090)	4,502
	64,255		64,255
		755,292	755,292
		388,258	388,258
		5,373,814	5,373,814
<u>\$ 863,099</u>	<u>\$ 3,940,801</u>	<u>\$ 6,174,595</u>	<u>\$ 10,115,396</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2023

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 159,650	\$
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		100,370
Due to Taxpayers		4,457
Security Deposits	83,605	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 243,255	\$ 104,827
 DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 654,988	\$ 763,455
Sale of Land	4,502	
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 659,490	\$ 763,455
 FUND BALANCES		
Nonspendable - Prepaid Costs	\$ 64,255	\$
Restricted for Authorized Construction		
Restricted for Debt Service		300,538
Committed for Construction	95,180	
Unassigned	846,702	
TOTAL FUND BALANCES	\$ 1,006,137	\$ 300,538
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,908,882	\$ 1,168,820
 NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 159,650	\$	\$ 159,650
		104,299	104,299
		232,558	232,558
264,720	365,090	(365,090)	
	4,457		4,457
	83,605		83,605
		250,000	250,000
		8,008,240	8,008,240
<u>\$ 264,720</u>	<u>\$ 612,802</u>	<u>\$ 8,230,007</u>	<u>\$ 8,842,809</u>
\$	\$ 1,418,443	\$ (43,207)	\$ 1,375,236
	4,502		4,502
<u>\$ -0-</u>	<u>\$ 1,422,945</u>	<u>\$ (43,207)</u>	<u>\$ 1,379,738</u>
\$	\$ 64,255	\$ (64,255)	\$
598,379	598,379	(598,379)	
	300,538	(300,538)	
	95,180	(95,180)	
	846,702	(846,702)	
<u>\$ 598,379</u>	<u>\$ 1,905,054</u>	<u>\$ (1,905,054)</u>	<u>\$ -0-</u>
<u>\$ 863,099</u>	<u>\$ 3,940,801</u>		
		\$ (1,373,236)	\$ (1,373,236)
		242,641	242,641
		1,023,444	1,023,444
		<u>\$ (107,151)</u>	<u>\$ (107,151)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2023

Total Fund Balances - Governmental Funds	\$	1,905,054
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		6,517,364
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2022 and prior tax levies became part of recognized revenues in the governmental activities of the District.		65,528
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Due to Developers	\$ (232,558)	
Accrued Interest Payable	(104,299)	
Bonds Payable	<u>(8,258,240)</u>	<u>(8,595,097)</u>

Total Net Position - Governmental Activities	\$	<u><u>(107,151)</u></u>
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The accompanying notes to the financial statements are an integral part of this report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2023

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 483,816	\$ 649,416
Water Service	208,638	
Wastewater Service	261,428	
San Jacinto River Authority Fees	174,378	
Tap Connection and Inspection Fees	35,719	
Investment, Penalty, Interest and Other	74,423	28,467
TOTAL REVENUES	\$ 1,238,402	\$ 677,883
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 113,647	\$ 2,183
Contracted Services	149,813	19,994
Purchased Water Service	336,734	
Purchased Wastewater Service	296,536	
Repairs and Maintenance	95,713	
Depreciation		
Other	93,274	8,130
Developer Interest		
Capital Outlay	86,054	
Debt Service:		
Bond Principal		355,000
Bond Interest		324,515
TOTAL EXPENDITURES/EXPENSES	\$ 1,171,771	\$ 709,822
NET CHANGE IN FUND BALANCES	\$ 66,631	\$ (31,939)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2023	939,506	332,477
FUND BALANCES/NET POSITION - DECEMBER 31, 2023	\$ 1,006,137	\$ 300,538

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 1,133,232	\$ 6,014	\$ 1,139,246
	208,638		208,638
	261,428		261,428
	174,378		174,378
	35,719		35,719
	102,890	2,436	105,326
<u>\$ - 0 -</u>	<u>\$ 1,916,285</u>	<u>\$ 8,450</u>	<u>\$ 1,924,735</u>
\$	\$ 115,830	\$	\$ 115,830
	169,807		169,807
	336,734		336,734
	296,536		296,536
	95,713		95,713
		150,751	150,751
545	101,949		101,949
		22,014	22,014
388,258	474,312	(474,312)	
	355,000	(355,000)	
	324,515	(3,681)	320,834
<u>\$ 388,803</u>	<u>\$ 2,270,396</u>	<u>\$ (660,228)</u>	<u>\$ 1,610,168</u>
\$ (388,803)	\$ (354,111)	\$ 354,111	\$
		314,567	314,567
987,182	2,259,165	(2,680,883)	(421,718)
<u>\$ 598,379</u>	<u>\$ 1,905,054</u>	<u>\$ (2,012,205)</u>	<u>\$ (107,151)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023

Net Change in Fund Balances - Governmental Funds	\$ (354,111)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.	6,014
Governmental funds report penalty and interest revenues on property taxes when collected. However, in the government-wide financial statements, revenues are recorded when the penalty and interest are assessed.	2,436
Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(150,751)
Governmental funds report capital outlay as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District.	452,298
In the government-wide financial statements, principal payments decrease long-term debt and the Statement of Activities is not affected.	355,000
Governmental funds report interest payments on long-term debt as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on the long-term debt through fiscal year-end.	<u>3,681</u>
Change in Net Position - Governmental Activities	<u><u>\$ 314,567</u></u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1. CREATION OF DISTRICT

Montgomery County Municipal Utility District No. 42, located in Montgomery County, Texas (the “District”), was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”), effective June 27, 1978. Pursuant to Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collections and disposal, including recycling, and to construct and maintain parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on July 12, 1978 and the first bonds were sold on July 2, 1980.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District’s Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements. The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position. The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenues and expenses in the government-wide Statement of Activities.

Fund Financial Statements

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

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

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

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

Basis of Accounting

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

Property taxes considered available by the District and included in revenues include the 2022 tax levy collections during the period October 1, 2022, to December 31, 2023, and taxes collected from January 1, 2023, to December 31, 2023, for all prior tax levies. The 2023 tax levy has been fully deferred to meet the District’s planned expenditures in the 2024 fiscal year.

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

As of December 31, 2023, the Debt Service Fund owed the General Fund \$100,370 for maintenance tax collections due to timing differences and the Capital Projects Fund owed the General Fund \$264,720 for construction and engineering costs.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized, including infrastructure assets, if they have an original cost of \$5,000 or more with an estimated useful life of two years following the date of acquisition. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives include 10 to 45 years for water, wastewater and drainage facilities.

Budgeting

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

Pensions

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

Measurement Focus

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Fund balances in governmental funds are classified using the following hierarchy:

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

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

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District committed \$95,180 of General Fund monies to pay for a portion of sanitary sewer rehabilitation costs.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes.

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3. LONG-TERM DEBT

Bonds payable as of year end include the following outstanding bonds:

	Series 2018	Series 2020	Series 2022
Amount Outstanding – December 31, 2023	\$ 3,425,000	\$ 1,865,000	\$ 2,945,000
Interest Rates	3.20% – 4.30%	2.00% – 4.50%	2.875% – 5.375%
Maturity Dates – Beginning/Ending	September 1, 2024/2043	September 1, 2024/2044	September 1, 2024/2046
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2023 (1)	September 1, 2025 (2)	September 1, 2029 (3)

- (1) Or any date thereafter, in whole or in part, at the option of the District, at par plus accrued interest to the date fixed for redemption. Series 2018 term bonds maturing September 1 in the years 2032, 2035, 2038 and 2043 are subject to mandatory redemption by the District beginning September 1, 2031, 2033, 2036 and 2039, respectively.
- (2) Or any date thereafter, in whole or in part, at the option of the District, at par plus accrued interest to the date fixed for redemption. Series 2020 term bonds maturing September 1 in the years 2027, 2030, 2032, 2034, 2036, 2038, 2040, 2042 and 2044 are subject to mandatory redemption by the District beginning September 1, 2026, 2028, 2031, 2033, 2035, 2037, 2039, 2041 and 2043, respectively.
- (3) Or any date thereafter, in whole or in part, at the option of the District, at par plus accrued interest to the date fixed for redemption. Series 2022 term bonds maturing September 1 in the years 2030, 2032, 2034, 2036, 2038, 2041, 2043 and 2046 are subject to mandatory redemption by the District beginning September 1, 2029, 2031, 2033, 2035, 2037, 2039, 2042 and 2044, respectively.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3. LONG-TERM DEBT (Continued)

As of year end, the District had authorized but unissued bonds in the amount of \$16,540,000 for utility facilities, \$6,000,000 for parks and recreational facilities, and \$13,487,500 for refunding purposes. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and wastewater system.

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2023:

	January 1, 2023	Additions	Retirements	December 31, 2023
Bonds Payable	\$ 8,590,000	\$	\$ 355,000	\$ 8,235,000
Unamortized Discounts	(167,058)		(8,195)	(158,863)
Unamortized Premiums	190,391		8,288	182,103
Bonds Payable, Net	\$ 8,613,333	\$ -0-	\$ 355,093	\$ 8,258,240
			Amount Due Within One Year	\$ 250,000
			Amount Due After One Year	8,008,240
			Bonds Payable, Net	\$ 8,258,240

As of December 31, 2023, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 250,000	\$ 312,897	\$ 562,897
2025	260,000	302,486	562,486
2026	275,000	291,586	566,586
2027	280,000	279,873	559,873
2028	295,000	267,830	562,830
2029-2033	1,660,000	1,141,013	2,801,013
2034-2038	2,035,000	799,075	2,834,075
2039-2043	2,485,000	387,197	2,872,197
2044-2046	695,000	36,474	731,474
	\$ 8,235,000	\$ 3,818,431	\$ 12,053,431

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended December 31, 2023, the District levied an ad valorem debt service tax rate of \$0.50 per \$100 of assessed valuation, which resulted in a tax levy of \$739,374 on the adjusted taxable valuation of \$147,874,895 for the 2023 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

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

NOTE 4. SIGNIFICANT BOND ORDERS AND LEGAL REQUIREMENTS

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

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

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District’s deposits was \$1,345,878 and the bank balance was \$1,299,684. The District was not exposed to custodial credit risk at year-end.

The carrying value of the deposits is included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2023, as listed below:

	Cash
GENERAL FUND	\$ 169,744
DEBT SERVICE FUND	313,035
CAPITAL PROJECTS FUND	863,099
TOTAL DEPOSITS	\$ 1,345,878

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors. Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act (the “Act”). The District’s written investment policy establishes guidelines by which it may invest, is reviewed annually, and may be more restrictive than the Act.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Hermes, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

As of December 31, 2023, the District had the following investments and maturities:

Funds and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 723,629	\$ 723,629
<u>DEBT SERVICE FUND</u>		
TexPool	247,322	247,322
TOTAL INVESTMENTS	\$ 970,951	\$ 970,951

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investments in TexPool were rated AAAM by Standard and Poor's.

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

Restrictions

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023, is summarized in the following table:

	January 1, 2023	Increases	Decreases	December 31, 2023
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 755,292	\$	\$	\$ 755,292
Construction in Progress		388,258		388,258
Total Capital Assets Not Being Depreciated	<u>\$ 755,292</u>	<u>\$ 388,258</u>	<u>\$ - 0 -</u>	<u>\$ 1,143,550</u>
Capital Assets Subject to Depreciation				
Water System	\$ 707,354	\$	\$	\$ 707,354
Wastewater System	1,832,087			1,832,087
Drainage System	4,244,376			4,244,376
Total Capital Assets Subject to Depreciation	<u>\$ 6,783,817</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 6,783,817</u>
Less Accumulated Depreciation				
Water System	\$ 215,293	\$ 15,719	\$	\$ 231,012
Wastewater System	612,423	40,713		653,136
Drainage System	431,536	94,319		525,855
Total Accumulated Depreciation	<u>\$ 1,259,252</u>	<u>\$ 150,751</u>	<u>\$ - 0 -</u>	<u>\$ 1,410,003</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 5,524,565</u>	<u>\$ (150,751)</u>	<u>\$ - 0 -</u>	<u>\$ 5,373,814</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 6,279,857</u>	<u>\$ 237,507</u>	<u>\$ - 0 -</u>	<u>\$ 6,517,364</u>

NOTE 7. MAINTENANCE TAX

On January 21, 1995, the voters of the District approved the levy and collection of an annual maintenance tax not to exceed \$1.50 per \$100 valuation on all taxable property within the District. The maintenance tax is to be used by the General Fund for maintenance purposes, including planning, maintaining, repairing and operating all necessary plants, works, facilities, improvements, appliances and equipment of the District and for paying cost of proper services, engineering and legal fees, and organizational and administrative costs.

During the year ended December 31, 2023, the District levied an ad valorem maintenance tax rate of \$0.43 per \$100 of assessed valuation, which resulted in a tax levy of \$635,862 on the adjusted taxable valuation of \$147,874,895 for the 2023 tax year.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8. LAND ACQUIRED THROUGH FORECLOSURE FOR DELINQUENT TAXES AND STANDBY FEES

On April 5, 1994, the District was awarded two judgments totaling \$595,897 against a landowner within the District. The judgments were for 1990 and 1991 delinquent taxes, penalty and interest through the date of judgment, standby fees and interest through the date of judgment, and taxes, penalties and interest through the date of judgment owed to other taxing authorities for 1990, 1991 and a pro-rated share of 1992 taxes. The District had no other liability to the other taxing jurisdictions pursuant to that certain Settlement Amendment dated September 8, 1999. The standby fee judgment and the tax judgment were combined for simultaneous foreclosure. On June 21, 1994, the District foreclosed on the land and obtained title to the land as trustee for itself and other taxing jurisdictions. The District recorded a book value for the land of \$843,445 which included the amount awarded in the two judgments: District taxes for 1992, 1993 and a proration for 1994, taxes due to the other two taxing jurisdictions, standby fees for 1993 including penalties and interest through June 30, 1994, and court costs and legal fees, net of \$6,954 received for the sale of certain lots at the time of foreclosure.

The District entered into an agreement with Montgomery Westlake Partners I, L.L.C. (“MWP”) granting them the option to purchase all the land for a total purchase price of \$223,160 (see Note 9). Accordingly, the carrying amount of the land was reduced to market value as determined by the option to purchase agreement. The District entered into the Fifth Amended and Restated Agreement for Sale of Real Estate with MWP providing the option to MWP to purchase certain property within the District. The original agreement was executed on October 28, 1994, and was subsequently amended on December 22, 1994, January 9, 1995, July 10, 1995, December 29, 1995 and April 16, 1996.

NOTE 9. AGREEMENT FOR THE SALE OF PROPERTY

MWP had the option to purchase 166 non-flood plain lots at \$898.20 each, 65 flood plain lots at \$1,125.54 and 26.9 acres of reserves for \$898.80 at one or more closings. The price for non-flood plains lots purchased prior to the first closing was \$2,500 per lot. The option to purchase the remaining non-flood plain lots and the reserves extended for 18 years from April 16, 1996. MWP purchased all the non-flood lots and the reserves were deeded to the Westlake Property Owner’s Association. The option to purchase the flood-plain lots extended from year to year upon payment of an option fee for up to five years from the date of the first closing (February 11, 1997). MWP did not exercise its option in 2002 and this option has now lapsed.

During the year ended December 31, 2022, the District sold 8 flood-plain lots at a purchase price of \$10,000 per lot, leaving only 4 flood-plain lots remaining. The carrying amount of the remaining 4 flood-plain lots is \$4,502.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 10. REIMBURSEMENT AGREEMENTS

On December 5, 2000, and as amended on May 8, 2001, the District and Montgomery Westlake Partners I, LLC (“MWP”) entered into a reimbursement agreement where MWP agreed to advance funds to assist the District in meeting its obligations. During 2000 and 2001, MWP advanced \$64,040 to fund operating deficits, including homeowner assessments on lots owned by the District, and the estimated costs to repair the water well. During 2023, the District reimbursed Hills of Westlake, LTD \$64,040 for operating advances.

In 2014, Westlake advanced \$1,819 for bond election costs which remains outstanding at December 31, 2023.

The remaining unreimbursed costs of \$230,739 relates to the portion of water, wastewater and drainage facilities serving the Hills of Westlake, Section 2 which was not reimbursed with Series 2022 Bonds. Payment of these costs was deferred to a future funding using bond proceeds or other lawfully available resources.

NOTE 11. LONE STAR GROUNDWATER CONSERVATION DISTRICT

The District is located within the boundaries of the Lone Star Groundwater Conservation District (the “Conservation District”). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the “Act”), as passed by the 77th Texas Legislature, in 2001.

The Act empowers the Conservation District for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Conservation District is overseeing that its participants comply with subsidence district pumpage requirements.

The Conservation District charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Conservation District, unless exempted. The fee enables the Conservation District to fulfill its purpose and regulatory functions. The District shut down its well in 2004 and currently purchases water from the City of Conroe.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 12. WATER SUPPLY AND WASTEWATER TREATMENT CONTRACT

The District entered into a Water Supply and Wastewater Treatment Contract with the City of Conroe (the “City”) in 2003, as amended January 13, 2005. The contract was amended and restated in its entirety, effective August 25, 2011. The contract expires on December 31, 2043, unless sooner terminated pursuant to the terms of the contract. The District and the City agreed that there are no outstanding obligations by either party under the terms of the original contract.

The water interconnect line was constructed by the City and completed in April of 2004. The District reimbursed the City for 30% of the actual costs to construct the line. The City owns and is responsible for the water facilities on the supply side of the point of delivery. The District owns and is responsible for the water interconnect facilities on its side of the point of delivery. The City will maintain the metering equipment.

The wastewater interconnect facilities necessary for the District to connect to the City were constructed and financed by the District and completed in October 2011. The City owns and is responsible for the wastewater collection facilities constructed by it on the receiving side of the point of discharge. The District owns and is responsible for the wastewater interconnect facilities it constructed on its side of the point of discharge. The District will maintain the metering equipment.

All water received by the District and all wastewater discharged by the District shall be metered. The City will read the meters and bill the District on a monthly basis. The charge for water received and wastewater discharged shall be at the City’s rate for commercial customers within the boundaries of the City, as set forth in the City’s Code of Ordinance.

During the current fiscal year, the District recorded expenditures of \$336,734 for water received from the City, which included \$2,788 for Lone Star Groundwater Conservation District assessments and \$165,705 for San Jacinto River Authority surface water assessments. During the current fiscal year, the District recorded expenditures of \$296,536 for wastewater services.

NOTE 13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and 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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 14. BOND ELECTION

At an election held within the District on May 11, 2023, District voters authorized the issuance of up to \$6,000,000 in bonds for the development of parks and recreational facilities serving area within the District.

NOTE 15. SUBSEQUENT EVENT – BOND APPLICATIONS

Subsequent to year-end, the District submitted a bond application to the Commission to issue \$4,255,000 in utility bonds and \$1,895,000 in parks and recreation bonds. As of March 7, 2024, the Commission declared the application administratively complete.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 460,000	\$ 483,816	\$ 23,816
Water Service	147,908	208,638	60,730
Wastewater Service	247,200	261,428	14,228
San Jacinto River Authority Fees	108,150	174,378	66,228
Tap Connection and Inspection Fees	95,275	35,719	(59,556)
Investment, Penalty, Interest and Other	<u>105,193</u>	<u>74,423</u>	<u>(30,770)</u>
TOTAL REVENUES	<u>\$ 1,163,726</u>	<u>\$ 1,238,402</u>	<u>\$ 74,676</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 101,135	\$ 113,647	\$ (12,512)
Contracted Services	134,938	149,813	(14,875)
Purchased Water Service	225,169	336,734	(111,565)
Purchased Wastewater Service	227,762	296,536	(68,774)
Repairs, Maintenance, Capital Outlay	355,383	181,767	173,616
Other	<u>119,341</u>	<u>93,274</u>	<u>26,067</u>
TOTAL EXPENDITURES	<u>\$ 1,163,728</u>	<u>\$ 1,171,771</u>	<u>\$ (8,043)</u>
NET CHANGE IN FUND BALANCE	\$ (2)	\$ 66,631	\$ 66,633
FUND BALANCE - JANUARY 1, 2023	<u>939,506</u>	<u>939,506</u>	<u>_____</u>
FUND BALANCE - DECEMBER 31, 2023	<u>\$ 939,504</u>	<u>\$ 1,006,137</u>	<u>\$ 66,633</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

DECEMBER 31, 2023

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2023**

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

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

2. RETAIL SERVICE PROVIDERS

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

The rates below are based on the rate order effective March 9, 2023.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>				
WATER:	\$ 27.00	10,000	N	\$ 1.50 2.25 2.50 3.00	10,001 to 15,000 15,001 to 20,000 20,001 to 30,000 30,001 and up				
WASTEWATER:	\$ 43.00		Y						
SURCHARGES:									
Water Conservation District Assessment			N	\$ 0.06	All				
Commission Regulatory Assessment			N	0.5% of water and wastewater charges					
River Authority Assessment			N	\$ 3.60	All				
District employs winter averaging for wastewater usage?					<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;">_____</td> <td style="width: 50%; text-align: center;"><u> X </u></td> </tr> <tr> <td style="text-align: center;">Yes</td> <td style="text-align: center;">No</td> </tr> </table>	_____	<u> X </u>	Yes	No
_____	<u> X </u>								
Yes	No								

Total monthly charges per 10,000 gallons usage: Water: \$27.00 Wastewater: \$43.00 Surcharges: \$36.95

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2023**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤ ³ / ₄ "	<u>521</u>	<u>518</u>	x 1.0	<u>518</u>
1"	<u>2</u>	<u>1</u>	x 2.5	<u>3</u>
1½"	_____	_____	x 5.0	_____
2"	<u>4</u>	<u>4</u>	x 8.0	<u>32</u>
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>527</u></u>	<u><u>523</u></u>		<u><u>553</u></u>
Total Wastewater Connections	<u><u>522</u></u>	<u><u>518</u></u>	x 1.0	<u><u>518</u></u>

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

Gallons billed to customers: 49,317,000

Note: The District purchases its water from the City of Conroe; see also Note 12.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2023

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

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely _____ Partly _____ Not at all X

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

Entirely X Partly _____ Not at all _____

ETJ in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2023

PROFESSIONAL FEES:	
Auditing	\$ 19,250
Engineering	33,496
Legal	<u>60,901</u>
TOTAL PROFESSIONAL FEES	<u>\$ 113,647</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 336,734
Purchased Wastewater Service	<u>296,536</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 633,270</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 12,217
Solid Waste Disposal	108,697
Operations and Billing	<u>28,899</u>
TOTAL CONTRACTED SERVICES	<u>\$ 149,813</u>
UTILITIES - Electricity	<u>\$ 1,240</u>
REPAIRS AND MAINTENANCE	<u>\$ 95,713</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 14,905
Communications	3,988
Election Costs	18,268
Insurance	8,625
Office Supplies and Postage	10,564
Other	<u>7,891</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 64,241</u>
CAPITAL OUTLAY	<u>\$ 86,054</u>
OTHER EXPENDITURES:	
Permit Fees	\$ 515
Connection and Inspection Fees	25,008
Regulatory Assessment	<u>2,270</u>
TOTAL OTHER EXPENDITURES	<u>\$ 27,793</u>
TOTAL EXPENDITURES	<u><u>\$ 1,171,771</u></u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
INVESTMENTS
DECEMBER 31, 2023

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 723,629	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 247,322	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 970,951</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2023

	Maintenance Taxes		Debt Service Taxes
TAXES RECEIVABLE -			
JANUARY 1, 2023	\$ 386,313		\$ 516,897
Adjustments to Beginning			
Balance	<u>(2,677)</u>	\$ 383,636	<u>(3,444)</u> \$ 513,453
Original 2023 Tax Levy	\$ 564,529		\$ 656,429
Adjustment to 2023 Tax Levy	<u>71,333</u>	<u>635,862</u>	<u>82,945</u> <u>739,374</u>
TOTAL TO BE			
ACCOUNTED FOR		\$ 1,019,498	\$ 1,252,827
 TAX COLLECTIONS:			
Prior Years	\$ 364,510		\$ 489,372
Current Year	<u>133,293</u>	<u>497,803</u>	<u>154,992</u> <u>644,364</u>
 TAXES RECEIVABLE -			
DECEMBER 31, 2023		<u>\$ 521,695</u>	<u>\$ 608,463</u>
 TAXES RECEIVABLE BY			
YEAR:			
2023		\$ 502,569	\$ 584,382
2022		3,795	5,090
2021		1,480	2,324
2020		1,857	1,928
2019		1,054	1,035
2018		797	1,115
2017		1,069	830
2016		1,019	755
2015		842	813
2014		784	823
2013 and prior		<u>6,429</u>	<u>9,368</u>
TOTAL		<u>\$ 521,695</u>	<u>\$ 608,463</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023	2022	2021	2020
PROPERTY VALUATIONS:				
Land	\$ 29,997,470	\$ 27,526,940	\$ 19,793,120	\$ 18,956,370
Improvements	133,216,640	102,442,866	76,750,000	63,764,070
Personal Property	702,042	610,321	522,113	716,501
Exemptions	(16,041,257)	(11,271,128)	(3,017,627)	(2,490,010)
TOTAL PROPERTY VALUATIONS	\$ 147,874,895	\$ 119,308,999	\$ 94,047,606	\$ 80,946,931
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.50	\$ 0.55	\$ 0.620	\$ 0.545
Maintenance**	0.43	0.41	0.395	0.525
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.93	\$ 0.96	\$ 1.015	\$ 1.070
ADJUSTED TAX LEVY*	\$ 1,375,236	\$ 1,145,367	\$ 954,583	\$ 866,133
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	20.96 %	99.22 %	99.60 %	99.56 %

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

** Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on January 21, 1995.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2023

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2024	\$ 115,000	\$ 137,691	\$ 252,691
2025	120,000	134,011	254,011
2026	125,000	130,111	255,111
2027	130,000	125,893	255,893
2028	135,000	121,342	256,342
2029	140,000	116,483	256,483
2030	145,000	111,407	256,407
2031	150,000	105,898	255,898
2032	160,000	99,898	259,898
2033	165,000	93,497	258,497
2034	170,000	86,733	256,733
2035	180,000	79,762	259,762
2036	185,000	72,383	257,383
2037	190,000	64,520	254,520
2038	200,000	56,445	256,445
2039	205,000	47,945	252,945
2040	215,000	39,130	254,130
2041	225,000	29,885	254,885
2042	230,000	20,210	250,210
2043	240,000	10,320	250,320
2044			
2045			
2046			
	<u>\$ 3,425,000</u>	<u>\$ 1,683,564</u>	<u>\$ 5,108,564</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2023

S E R I E S - 2 0 2 0

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2024	\$ 60,000	\$ 52,544	\$ 112,544
2025	60,000	49,844	109,844
2026	65,000	47,144	112,144
2027	65,000	44,218	109,218
2028	70,000	41,294	111,294
2029	70,000	38,318	108,318
2030	75,000	35,344	110,344
2031	75,000	32,156	107,156
2032	80,000	30,656	110,656
2033	85,000	29,056	114,056
2034	85,000	27,356	112,356
2035	90,000	25,656	115,656
2036	95,000	23,632	118,632
2037	95,000	21,494	116,494
2038	100,000	19,356	119,356
2039	105,000	17,106	122,106
2040	110,000	14,612	124,612
2041	115,000	12,000	127,000
2042	120,000	9,126	129,126
2043	120,000	6,125	126,125
2044	125,000	3,124	128,124
2045			
2046			
	<u>\$ 1,865,000</u>	<u>\$ 580,161</u>	<u>\$ 2,445,161</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2023

S E R I E S - 2 0 2 2

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2024	\$ 75,000	\$ 122,662	\$ 197,662
2025	80,000	118,631	198,631
2026	85,000	114,331	199,331
2027	85,000	109,762	194,762
2028	90,000	105,194	195,194
2029	95,000	100,356	195,356
2030	100,000	95,250	195,250
2031	105,000	89,875	194,875
2032	105,000	84,231	189,231
2033	110,000	78,588	188,588
2034	115,000	74,187	189,187
2035	125,000	69,588	194,588
2036	130,000	64,587	194,587
2037	135,000	59,388	194,388
2038	140,000	53,988	193,988
2039	145,000	48,388	193,388
2040	155,000	42,587	197,587
2041	160,000	36,388	196,388
2042	165,000	29,987	194,987
2043	175,000	23,388	198,388
2044	180,000	16,388	196,388
2045	190,000	11,212	201,212
2046	200,000	5,750	205,750
	<u>\$ 2,945,000</u>	<u>\$ 1,554,706</u>	<u>\$ 4,499,706</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2023

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2024	\$ 250,000	\$ 312,897	\$ 562,897
2025	260,000	302,486	562,486
2026	275,000	291,586	566,586
2027	280,000	279,873	559,873
2028	295,000	267,830	562,830
2029	305,000	255,157	560,157
2030	320,000	242,001	562,001
2031	330,000	227,929	557,929
2032	345,000	214,785	559,785
2033	360,000	201,141	561,141
2034	370,000	188,276	558,276
2035	395,000	175,006	570,006
2036	410,000	160,602	570,602
2037	420,000	145,402	565,402
2038	440,000	129,789	569,789
2039	455,000	113,439	568,439
2040	480,000	96,329	576,329
2041	500,000	78,273	578,273
2042	515,000	59,323	574,323
2043	535,000	39,833	574,833
2044	305,000	19,512	324,512
2045	190,000	11,212	201,212
2046	200,000	5,750	205,750
	<u>\$ 8,235,000</u>	<u>\$ 3,818,431</u>	<u>\$ 12,053,431</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2023

Description	Original Bonds Issued	Bonds Outstanding January 1, 2023
Montgomery County Municipal Utility District No. 42 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2012	\$ 1,515,000	\$ 165,000
Montgomery County Municipal Utility District No. 42 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2018	3,855,000	3,540,000
Montgomery County Municipal Utility District No. 42 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2020	1,865,000	1,865,000
Montgomery County Municipal Utility District No. 42 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2022	<u>3,020,000</u>	<u>3,020,000</u>
TOTAL	<u>\$ 10,255,000</u>	<u>\$ 8,590,000</u>

Bond Authority:	<u>Park Bonds</u>	<u>Utility Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 6,000,000	\$ 27,420,000	\$ 13,612,500
Amount Issued	<u> </u>	<u>10,880,000</u>	<u>125,000</u>
Remaining to be Issued	<u>\$ 6,000,000</u>	<u>\$ 16,540,000</u>	<u>\$ 13,487,500</u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2023</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 165,000	\$ 6,600	\$ - 0 -	BONY Trust Company Dallas, TX
	115,000	141,141	3,425,000	Zions Bancorporation Amegy Bank Division Houston, Texas
		52,544	1,865,000	Zions Bancorporation Amegy Bank Division Houston, Texas
	<u>75,000</u>	<u>124,230</u>	<u>2,945,000</u>	Zions Bancorporation Amegy Bank Division Houston, Texas
<u>\$ - 0 -</u>	<u>\$ 355,000</u>	<u>\$ 324,515</u>	<u>\$ 8,235,000</u>	

Debt Service Fund cash and investment balances at year end: \$ 560,357

Average annual debt service payment (principal and interest)
for remaining term of all debt: \$ 524,062

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

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2023	2022	2021
REVENUES			
Property Taxes	\$ 483,816	\$ 373,936	\$ 417,574
Water Service	208,638	176,882	175,652
Wastewater Service	261,428	237,849	204,470
San Jacinto River Authority Fees	174,378	142,034	108,668
Tap Connection and Inspection Fees	35,719	182,235	76,422
Investment, Penalty, Interest and Other	74,423	45,361	9,883
TOTAL REVENUES	\$ 1,238,402	\$ 1,158,297	\$ 992,669
EXPENDITURES			
Professional Fees	\$ 113,647	\$ 108,206	\$ 108,473
Contracted Services	149,813	146,588	119,301
Purchased Water Service	336,734	307,975	241,540
Purchased Wastewater Service	296,536	254,956	225,601
Repairs, Maintenance, Capital Outlay	181,767	128,747	110,637
Other	93,274	143,803	126,416
TOTAL EXPENDITURES	\$ 1,171,771	\$ 1,090,275	\$ 931,968
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 66,631	\$ 68,022	\$ 60,701
OTHER FINANCING SOURCES (USES)			
Transfer In	\$	\$	\$ 38,579
Proceeds from Sale of Land		80,000	
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ 80,000	\$ 38,579
NET CHANGE IN FUND BALANCE	\$ 66,631	\$ 148,022	\$ 99,280
BEGINNING FUND BALANCE	939,506	791,484	692,204
ENDING FUND BALANCE	\$ 1,006,137	\$ 939,506	\$ 791,484

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2020	2019	2023	2022	2021	2020	2019
\$ 375,769	\$ 248,716	39.1 %	32.3 %	42.1 %	37.0 %	34.0 %
131,768	123,144	16.8	15.3	17.7	13.0	16.9
182,767	159,267	21.1	20.5	20.6	18.0	21.9
108,936	86,589	14.1	12.3	10.9	10.7	11.9
149,807	81,500	2.9	15.7	7.7	14.8	11.2
65,872	29,603	6.0	3.9	1.0	6.5	4.1
<u>\$ 1,014,919</u>	<u>\$ 728,819</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 105,942	\$ 95,701	9.2 %	9.3 %	10.9 %	10.4 %	13.1 %
110,802	76,904	12.1	12.7	12.0	10.9	10.6
246,547	202,476	27.2	26.6	24.3	24.3	27.8
173,277	114,720	23.9	22.0	22.7	17.1	15.7
140,967	79,805	14.7	11.1	11.1	13.9	10.9
157,248	96,299	7.5	12.4	12.8	15.5	13.2
<u>\$ 934,783</u>	<u>\$ 665,905</u>	<u>94.6 %</u>	<u>94.1 %</u>	<u>93.8 %</u>	<u>92.1 %</u>	<u>91.3 %</u>
<u>\$ 80,136</u>	<u>\$ 62,914</u>	<u>5.4 %</u>	<u>5.9 %</u>	<u>6.2 %</u>	<u>7.9 %</u>	<u>8.7 %</u>
\$ 27,000	\$ 92,520					
<u>\$ 27,000</u>	<u>\$ 92,520</u>					
\$ 107,136	\$ 155,434					
585,068	429,634					
<u>\$ 692,204</u>	<u>\$ 585,068</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2023	2022	2021
REVENUES			
Property Taxes	\$ 649,416	\$ 586,937	\$ 433,314
Investment, Penalty, Interest and Other	<u>28,467</u>	<u>11,781</u>	<u>1,225</u>
TOTAL REVENUES	<u>\$ 677,883</u>	<u>\$ 598,718</u>	<u>\$ 434,539</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 30,307	\$ 29,274	\$ 23,756
Debt Service Principal	355,000	270,000	260,000
Debt Service Interest and Fees	<u>324,515</u>	<u>211,125</u>	<u>222,175</u>
TOTAL EXPENDITURES	<u>\$ 709,822</u>	<u>\$ 510,399</u>	<u>\$ 505,931</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (31,939)</u>	<u>\$ 88,319</u>	<u>\$ (71,392)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from the Issuance of Long-Term Debt	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ (31,939)	\$ 88,319	\$ (71,392)
BEGINNING FUND BALANCE	<u>332,477</u>	<u>244,158</u>	<u>315,550</u>
ENDING FUND BALANCE	<u>\$ 300,538</u>	<u>\$ 332,477</u>	<u>\$ 244,158</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>523</u>	<u>515</u>	<u>458</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>518</u>	<u>510</u>	<u>453</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2020	2019	2023	2022	2021	2020	2019
\$ 368,998	\$ 347,473	95.8 %	98.0 %	99.7 %	96.5 %	97.4 %
<u>13,440</u>	<u>9,163</u>	<u>4.2</u>	<u>2.0</u>	<u>0.3</u>	<u>3.5</u>	<u>2.6</u>
\$ <u>382,438</u>	\$ <u>356,636</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 20,069	\$ 20,047	4.5 %	4.9 %	5.5 %	5.2 %	5.6 %
240,000	135,000	52.4	45.1	59.8	62.8	37.9
<u>174,529</u>	<u>152,036</u>	<u>47.8</u>	<u>35.2</u>	<u>51.1</u>	<u>45.6</u>	<u>42.6</u>
\$ <u>434,598</u>	\$ <u>307,083</u>	<u>104.7 %</u>	<u>85.2 %</u>	<u>116.4 %</u>	<u>113.6 %</u>	<u>86.1 %</u>
\$ <u>(52,160)</u>	\$ <u>49,553</u>	<u>(4.7) %</u>	<u>14.8 %</u>	<u>(16.4) %</u>	<u>(13.6) %</u>	<u>13.9 %</u>
\$ <u>26,272</u>	\$ <u>- 0 -</u>					
\$ (25,888)	\$ 49,553					
<u>341,438</u>	<u>291,885</u>					
\$ <u>315,550</u>	\$ <u>341,438</u>					
<u>436</u>	<u>365</u>					
<u>431</u>	<u>362</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2023

District Mailing Address - Montgomery County Municipal Utility District No. 42
c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP
1980 Post Oak Blvd., Suite 1380
Houston, TX 77056

District Telephone Number - (713) 850-9000

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>December 31, 2023</u>	Expense Reimbursements for the year ended <u>December 31, 2023</u>	<u>Title</u>
Stacy Gehring	05/22 05/26 (Elected)	\$ 3,268	\$ -0-	President
William Thomas III	05/21 05/24 (Appointed)	\$ 2,897	\$ -0-	Vice President
Brent Fannin	05/22 05/26 (Elected)	\$ 2,226	\$ -0-	Secretary
Natalie Gigliotta	05/22 05/26 (Elected)	\$ 2,818	\$ -0-	Assistant Secretary
Darrell Webster	08/22 05/24 (Appointed)	\$ 2,447	\$ -0-	Assistant Secretary

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

Submission date of most recent District Registration Form: August 25, 2022

The limit on Fees of Office that a Director may receive during a fiscal year is set by Board Resolution on September 2, 2009. Fees of Office are the amounts paid to a Director during the District’s current fiscal year.

See accompanying independent auditor’s report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 42
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2023

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2023</u>	<u>Title</u>
Sanford Kuhl Hagan Kugle Parker Kahn, LLP	02/18/10	\$ 69,526	General Counsel
McCall Gibson Swedlund Barfoot PLLC	08/05/91	\$ 16,250 \$ 3,000	Auditor AUP
Protocol Bookkeeping, Inc.	02/01/83	\$ 16,384	Bookkeeper
Vogt Engineering, L.P.	08/05/21	\$ 170,931	Engineer
Robert W. Baird & Co. Inc.	02/05/15	\$ -0-	Financial Advisor
Steve Haskins	11/02/17	\$ -0-	Investment Officer
Hays Utility North Service Corporation	01/01/93	\$ 165,967	Operator
Bob Leared Interests	01/14/80	\$ 16,112	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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