

OFFICIAL STATEMENT DATED MARCH 26, 2025

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS; HOWEVER, SUCH INTEREST IS TAKEN INTO ACCOUNT IN DETERMINING THE ANNUAL ADJUSTED FINANCIAL STATEMENT INCOME OF APPLICABLE CORPORATIONS FOR THE PURPOSE OF DETERMINING THE ALTERNATIVE MINIMUM TAX IMPOSED ON CORPORATIONS. 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

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

\$6,000,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 166
(A political subdivision of the State of Texas located within Montgomery County)
UNLIMITED TAX BONDS
SERIES 2025

The bonds described above (the “Bonds”) are obligations solely of Montgomery County Municipal Utility District No. 166 (the “District”) and are not obligations of the State of Texas, Montgomery County, the City of Conroe, or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See “RISK FACTORS.”

Dated Date: April 1, 2025

Due: March 1, as shown below

Interest Accrual Date: Date of Delivery

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the “Paying Agent/Registrar”) upon surrender of the Bonds for payment. Interest on the Bonds accrues from the date of initial delivery (expected on or about April 24, 2025) (the “Date of Delivery”), and is payable each September 1 and March 1, commencing September 1, 2025, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered 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 will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See “MUNICIPAL BOND INSURANCE” herein.

MATURITY SCHEDULE

Principal	Maturity	CUSIP	Interest	Initial	Principal	Maturity	CUSIP	Interest	Initial
Amount	(March 1)	Number(b)	Rate	Reoffering Yield(c)	Amount	(March 1)	Number(b)	Rate	Reoffering Yield(c)
\$ 130,000	2026	61373T DD6	6.625 %	3.100 %	\$ 240,000	2039 (a)	61373T DS3	4.125 %	4.240 %
135,000	2027	61373T DE4	6.625	3.150	250,000	2040 (a)	61373T DT1	4.125	4.310
140,000	2028	61373T DF1	6.625	3.200	260,000	2041 (a)	61373T DU8	4.250	4.380
150,000	2029	61373T DG9	6.625	3.250	275,000	2042 (a)	61373T DV6	4.375	4.440
155,000	2030	61373T DH7	6.625	3.350	285,000	2043 (a)	61373T DW4	4.375	4.500
165,000	2031	61373T DJ3	6.625	3.450	300,000	2044 (a)	61373T DX2	4.500	4.550
170,000	2032 (a)	61373T DK0	6.625	3.500	315,000	2045 (a)	61373T DY0	4.500	4.580
180,000	2033 (a)	61373T DL8	6.000	3.550	330,000	2046 (a)	61373T DZ7	4.500	4.600
190,000	2034 (a)	61373T DM6	4.125	3.800	345,000	2047 (a)	61373T EA1	4.500	4.620
195,000	2035 (a)	61373T DN4	4.125	3.900	365,000	2048 (a)	61373T EB9	4.500	4.630
205,000	2036 (a)	61373T DP9	4.125	4.000	380,000	2049 (a)	61373T EC7	4.500	4.640
215,000	2037 (a)	61373T DQ7	4.125	4.125	400,000	2050 (a)	61373T ED5	4.500	4.650
225,000	2038 (a)	61373T DR5	4.125	4.180					

- (a) Bonds maturing on or after March 1, 2032, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on March 1, 2031, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See “LEGAL MATTERS.” Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about April 24, 2025.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 97.0027% of the par value thereof, which resulted in a net effective interest rate of 4.718269%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the IBA method).

Prices and Marketability

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

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of 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 Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas, created by Senate Bill 4682 (as codified in Chapter 8067 of the Texas Special District Local Laws Code) during the 86th Texas Legislature effective June 9, 2019, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended and Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution. The District contains approximately 200 acres of land. See “THE DISTRICT.”
<i>Location...</i>	The District is located in western Montgomery County, Texas, within the extraterritorial jurisdiction of the City of Conroe, approximately one mile south of Texas State Highway 105, along the east side of Farm-to-Market Road 2854. The District is located within the Montgomery Independent School District. See “THE DISTRICT” and “AERIAL LOCATION MAP.”
<i>The Developer...</i>	<p>Forestar (USA) Real Estate Group, Inc., a Delaware corporation, is the developer of Fairwater, Section 1 through 10 (approximately 105 acres, 482 lots) within the District (“Forestar”). In 2022, Forestar sold approximately 46 acres to GG B2R Pecan Fairwater LP, a Delaware corporation (“Great Gulf”), for the development of approximately 46 acres in the District as Fairwater, Sections Eleven and Twelve (approximately 173 lots). The utility and paving construction has been completed for such lots, but home construction has not yet begun. See “RISK FACTORS—Vacant Lots.” Forestar does not own any additional land within the District.</p> <p>Forestar is a wholly-owned subsidiary of Forestar Group, Inc., a Delaware corporation with its principal place of business in Arlington, Texas, that specializes in real estate development (“Forestar Group”). Forestar Group is a majority owned subsidiary of D.R. Horton, Inc., a Delaware corporation (“DR Horton”), a national homebuilder.</p> <p>Forestar is referred to herein as (the “Developer”). See “THE DEVELOPER” and “TAX DATA—Principal Taxpayers.”</p>
<i>Status of Development...</i>	Single-family residential development in the District consists of Fairwater, Sections One through Twelve (655 single-family residential lots on approximately 151 acres). As of February 26, 2025, 474 homes were completed of which 472 are occupied, 8 homes were under construction or continue to be in the name of a homebuilder and 173 vacant developed lots were available for home construction. In addition, the District contains approximately 49 undevelopable acres consisting of thoroughfares, rights-of-way, detention ponds, lake amenities, easements, parks and recreational and open space. See “THE DISTRICT—Land Use” and “—Status of Development.”
<i>Homebuilding...</i>	Active homebuilding within the District is currently being performed by CastleRock Communities. According to the Developer, current home sales prices in the District range from approximately \$307,000 to \$425,000. See “THE DISTRICT—Homebuilding.”
<i>Payment Record...</i>	The District has previously issued \$8,660,000 principal amount of unlimited tax bonds for road facilities in two series and \$5,500,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities in one series, of which \$13,595,000 remains outstanding (the “Outstanding Bonds”). The District has never defaulted in the payment of principal or interest on the Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED),” and “OUTSTANDING DEBT.”
<i>Short Term Debt...</i>	The District issued a \$3,500,000 principal amount Bond Anticipation Note, Series 2024 (the “2024 BAN”) on July 2, 2024, with a maturity date of July 1, 2025. The District will use a portion of the Bond proceeds to redeem the 2024 BAN prior to maturity. The 2024 BAN redemption is payable solely with Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Short Term Debt.”

Slope Reconstruction... In March 2024, the District was notified of significant erosion near Fairwater Detention Pond 6A within the District. The District completed an emergency slope reconstruction effort in connection with the erosion in July 2024 and has engaged a design-build firm to permanently reconstruct the slope. The District intends to use a portion of the Bond proceeds to fund the costs for the pond slope reconstruction. See “RISK FACTORS – Slope Reconstruction” and “USE AND DISTRIBUTION OF BOND PROCEEDS.”

THE BONDS

Description... The \$6,000,000 Unlimited Tax Bonds, Series 2025 (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the District’s Board of Directors (the “Board”). The Bonds are scheduled to mature serially on March 1 in each of the years 2026 through 2050, both inclusive, in the principal amounts and accruing interest at the rates shown on the cover page hereof. Interest on the Bonds accrues from the Date of Delivery and is payable September 1, 2025, and each March 1 and September 1 thereafter, until the earlier of maturity or redemption. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. See “THE BONDS.”

Book-Entry-Only System... The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”

Redemption... Bonds maturing on or after March 1, 2032, are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on March 1, 2031, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

Use of Proceeds... Proceeds of the Bonds will be used to redeem the 2024 BAN prior to maturity and to pay for the items shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS,” including to pay interest on funds advanced by the Developer for construction costs on behalf of the District; to capitalize \$285,000 of interest on the Bonds; to pay for the slope reconstruction project (see “RISK FACTORS—Slope Reconstruction”), and to pay administrative costs and certain other costs and engineering fees related to the issuance of the Series 2024 BAN and the Bonds.

Authority for Issuance... The Bonds are the second series of bonds issued out of an aggregate of \$88,600,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of constructing or acquiring water, wastewater and drainage facilities and for refunding such bonds. The Bonds are issued by the District pursuant to an order of the Texas Commission on Environmental Quality (the “TCEQ”), the terms and conditions of the Bond Resolution, article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 8067 Texas Special District Local Laws code, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “RISK FACTORS—Future Debt,” “THE BONDS—Authority for Issuance,” and “—Issuance of Additional Debt.”

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

*Municipal Bond Rating And
Municipal Bond Insurance...*

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") has assigned a municipal bond rating of "AA" (stable outlook) to the Bonds with the understanding that, upon issuance and delivery of the Bonds, a municipal bond insurance policy ensuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM"). No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. See "RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE" and "APPENDIX B."

*Qualified Tax-Exempt
Obligations...*

The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS—Qualified Tax-Exempt Obligations."

Bond Counsel...

Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT," "LEGAL MATTERS" and "TAX MATTERS."

Financial Advisor...

Masterson Advisors LLC, Houston, Texas. See "MANAGEMENT OF THE DISTRICT."

Disclosure Counsel...

McCall, Parkhurst & Horton L.L.P., Houston, Texas.

Paying Agent/Registrar...

The Bank of New York Mellon Trust Company, N.A., Houston, Texas. See "THE BONDS—Method of Payment of Principal and Interest."

RISK FACTORS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire Official Statement with respect to the investment security of the Bonds, including particularly the section captioned "RISK FACTORS."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2024 Certified Taxable Assessed Valuation.....	\$148,790,251	(a)
Estimated Taxable Assessed Valuation as of December 15, 2024	\$169,041,060	(b)
Gross Direct Debt Outstanding	\$19,595,000	(c)
Estimated Overlapping Debt	<u>10,440,840</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$30,035,840	
Ratios of Gross Direct Debt to:		
2024 Certified Taxable Assessed Valuation	13.17%	
Estimated Taxable Assessed Valuation as of December 15, 2024	11.59%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2024 Certified Taxable Assessed Valuation	20.19%	
Estimated Taxable Assessed Valuation as of December 15, 2024	17.77%	
Funds Available for Debt Service:		
WSD Debt Service Funds Available as of February 26, 2025	\$90,234	
Road Debt Service Funds Available as of February 26, 2025	112,260	
Capitalized Interest from proceeds of the Bonds	<u>285,000</u>	(e)
Total Funds available for Debt Service.....	\$487,494	
WSD Capital Projects Funds Available as of February 26, 2025	\$2,133,878	(f)(g)
Road Capital Projects Funds Available as of February 26, 2025	\$326,758	
Operating Funds Available as of February 26, 2025	\$298,422	
2024 Debt Service Tax Rate.....	\$0.56	
2024 Maintenance and Operations Tax Rate.....	<u>0.81</u>	
2024 Total Tax Rate.....	\$1.37	
Average Annual Debt Service Requirement (2025-2050).....	\$1,196,835	(h)
Maximum Annual Debt Service Requirement (2026).....	\$1,391,574	(h)
Tax Rate Required to Pay Average Annual Debt Service (2025-2050) at a 95% Collection Rate:		
2024 Certified Taxable Assessed Valuation.....	\$0.85	(i)
Based upon Estimated Taxable Assessed Valuation as of December 15, 2024	\$0.75	(i)
Tax Rate Required to Pay Maximum Annual Debt Service (2026) at a 95% Collection Rate:		
2024 Certified Taxable Assessed Valuation.....	\$0.99	(i)
Based upon Estimated Taxable Assessed Valuation as of December 15, 2024	\$0.87	(i)
Status of Development as of February 26, 2025 (j):		
Homes Completed (472 Occupied)	474	
Homes Under Construction	8	
Lots Available for Home Construction	173	
Estimated Population	1,652	(k)

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on December 15, 2024. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2024 and December 15, 2024, will be certified as of January 1, 2025. See "TAXING PROCEDURES."
- (c) Includes the Outstanding Bonds and the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Debt."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) The District will capitalize \$285,000 from Bond proceeds and deposit such funds in the Water, Sewer & Drainage Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (f) The District intends to apply approximately \$191,000 of surplus construction funds towards the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (g) Approximately \$1,940,000 of such balance is related to the Series 2024 BAN proceeds.
- (h) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (i) See "RISK FACTORS—Possible Impact on District Tax Rates" and "TAX DATA—Tax Adequacy for Debt Service."
- (j) See "THE DISTRICT—"Land Use" and "—Status of Development."
- (k) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 166 *(A political subdivision of the State of Texas located within Montgomery County)*

\$6,000,000

UNLIMITED TAX BONDS SERIES 2025

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 166 (the “District”) of its \$6,000,000 Unlimited Tax Bonds, Series 2025 (the “Bonds”).

The Bonds are issued by the District pursuant to an order of the Texas Commission on Environmental Quality (the “TCEQ”), a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”), Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 8067 Texas Special District Local Laws code, an election held within the District, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Forestar (USA) Real Estate Group, Inc. (the “Developer”), and GG B2R Pecan Fairwater LP, and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

THE BONDS

Description

The Bonds will be dated April 1, 2025, and interest will accrue from the Date of Delivery with interest payable each September 1 and March 1, beginning September 1, 2025 (each an “Interest Payment Date”), and will mature on the dates and in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Houston, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Houston, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the “Record Date”), to the address of such Registered Owner as shown on the Paying Agent/Registrar’s records (the “Register”) or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remains outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Montgomery County, the City of Conroe (the “City”), or any entity other than the District.

Funds

In the Bond Resolution, the Water/Sewer/Drainage Debt Service Fund is confirmed, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

The District also maintains a Road Debt Service Fund that is not pledged to the Water/Sewer/Drainage Bonds, including the Bonds. Funds in the Road Debt Service Fund are not available to pay principal and interest on the Bonds and funds in the Water/Sewer/Drainage Debt Service Fund are not available to pay principal and interest on the Outstanding Road Bonds.

\$285,000 of capitalized interest shall be deposited into the Water/Sewer/Drainage Debt Service Fund upon receipt. A portion of the proceeds from the sale of the Bonds will be used to redeem the 2024 BAN (as defined herein). The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purpose of reimbursing Forestar for certain construction costs, to pay for the slope reconstruction project, and for paying the costs of issuance of the 2024 BAN and the Bonds. Any monies remaining in the Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Water/Sewer/Drainage Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" and "RISK FACTORS- Slope Reconstruction."

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for 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 in the Bond Resolution 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.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after March 1, 2032, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on March 1, 2031, or any date thereafter, at a price of par value plus unpaid accrued interest on the principal amounts called for redemption from the most recent Interest Payment Date to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written 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 Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Authority for Issuance

At a bond election held within the District on November 5, 2019, voters of the District authorized the issuance of \$88,600,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring water, wastewater, and drainage facilities and for refunding such bonds. The Bonds are issued pursuant to such authorization. See "Issuance of Additional Debt" herein.

The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Issuance of Additional Debt

The District's voters have authorized the issuance of \$88,600,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring water, wastewater and drainage facilities and for refunding such bonds, \$55,300,000 principal amount of unlimited tax bonds for the purpose of constructing roads and related improvements and for refunding such bonds, and \$7,200,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring park and recreational facilities and for refunding such bonds. The District could authorize additional amounts of bonds. After the issuance of the Bonds, \$77,100,000 principal amount of the unlimited tax bonds for water, wastewater and drainage and refunding such bonds will remain authorized but unissued, \$46,640,000 principal amount of the unlimited tax bonds for road facilities and refunding such bonds will remain authorized but unissued and all of the authorized amounts for park and recreational facilities and refunding such bonds will be authorized but unissued. See "RISK FACTORS—Future Debt."

If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to three percent (3%) of the value of the taxable property in the District, 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 greater than three percent (3%) of the value of the taxable property in the District.

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 master plan and bonds for such purposes by the qualified voters in the District; (b) approval of the master plan and bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes.

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.

Annexation by the City of Conroe

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City, the District must conform to a City ordinance consenting to the creation of the District. In addition, except as set forth below under "Strategic Partnership Agreement," the District may be annexed by the City without the District's consent. If the District is annexed, the City would assume the District's assets and obligations (including the Bonds) and may dissolve the District. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt, nor does the District make any representation concerning the ability of the City to pay debt service on the District's bonds if annexation were to occur. See "STRATEGIC PARTNERSHIP AGREEMENT" below.

Strategic Partnership Agreement

The District lies entirely within the extraterritorial jurisdiction of the City. The District and the City entered into a Strategic Partnership Agreement (the "SPA") to establish the conditions of annexation on December 10, 2020. Under the SPA, the City has the right to annex the District for "limited purposes," specifically for the levy of the City's sales and use tax within the District's boundaries. The limited purpose annexation may not be converted to a full purpose annexation until the earlier of the following dates: (1) December 31 of the 16th year following the District's first ad valorem bond issuance; or (2) December 31, 2040. On the full purpose annexation date, the land included within the boundaries of the District shall be deemed to be within the full purpose boundary limits of the City without the need for any further action. Upon such date, all taxable property within the territory of the District shall become subject to ad valorem taxation by the City. If debt of the District remains outstanding on the full purpose annexation date or if the District has not fully reimbursed any developers within the District in accordance with any written reimbursement agreement, then the City may continue the District as a "limited district." The "limited district" shall continue to be known as Montgomery County Municipal Utility District No. 166 and shall continue until the City dissolves the District pursuant to the terms of the SPA. The powers of the "limited district" are the same as prior District powers, except that none of the District's facilities may be transferred to another party without the consent of the City. The "limited district" is expressly authorized and required to levy and collect taxes sufficient to meet its outstanding debt service requirements for debt previously issued by the District and to pay necessary operating expenses associated therewith.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds and the Outstanding Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "RISK FACTORS—Registered Owners' Remedies and Bankruptcy Limitations."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 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 ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating from S&P Global Ratings of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by LJA Engineering, Inc., the District's engineer (the "Engineer") and were submitted to the TCEQ in the District's Bond Application. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and Masterson Advisors LLC (the "Financial Advisor"). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and review by the District's auditor prior to disbursement. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

CONSTRUCTION COSTS

Developer Contribution Items	
• Fairwater Section Three - W, WW, D; and Mass Grading Phase One.....	\$ 397,672
• Engineering.....	58,675
• Stormwater Pollution Prevention Plan.....	7,290
Total Developer Contribution Items.....	<u>463,637</u>
District Items	
• Land Acquisition Costs.....	52,170
• Fairwater Pond 6A Reconstruction (a).....	3,989,281
• Engineering.....	69,700
Total District Items.....	<u>4,111,151</u>
Total Construction Costs.....	\$ 4,574,788 (b)
Less Surplus Funds.....	<u>\$ (191,000)</u>
TOTAL CONSTRUCTION COSTS.....	\$ 4,383,788

NON-CONSTRUCTION COSTS

• Underwriter's Discount (c) (d).....	\$ 179,836
• Capitalized Interest (c).....	285,000
• Developer Interest.....	171,630
• BAN Interest.....	201,250
• Developer Advances.....	<u>275,000</u>
Total Non-Construction Costs.....	\$ 1,112,716

ISSUANCE COSTS AND FEES

• Issuance Costs and Professional Fees.....	\$ 335,683
• BAN Issuance Costs.....	91,649
• Bond Application Report Costs.....	55,000
• State Regulatory Fees.....	21,000
• Contingency (d).....	<u>164</u>
Total Issuance Costs and Fees.....	\$ 503,496
TOTAL BOND ISSUE.....	\$ 6,000,000

(a) See "RISK FACTORS—Slope Reconstruction."

(b) The District sold a \$3,500,000 Bond Anticipation Note, Series 2024 (the "2024 BAN") on July 2, 2024, with a maturity date of July 1, 2025. The District will use a portion of the Bond proceeds to redeem the 2024 BAN prior to maturity. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Short Term Debt."

(c) The TCEQ approved a maximum amount of Underwriter's discount of 3.00% and \$285,000 of capitalized interest.

(d) Contingency represents the difference in the estimated and actual amount of Underwriter's Discount.

In the event approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the TCEQ. In the event actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ notice or approval and the issuance of additional bonds may be required.

THE DISTRICT

General

The District is a political subdivision of the State of Texas, created by the 86th Texas Legislature effective on June 9, 2019 and operates pursuant to Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended. The District contains approximately 200 acres of land.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water; and the construction of roads and related facilities. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also authorized to develop parks and recreational facilities, including the issuance of bonds payable from taxes for such purposes. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the voters of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. To comply with its consent ordinance for creation from the City, within the extraterritorial jurisdiction of which the District is located, the District is required to observe certain requirements of the City consent ordinance which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, park and recreational facilities and roads and related improvements; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to legally subdivided lots that are part of a recorded subdivision plat or otherwise exempt from the subdivision requirements of the City and Montgomery County. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Description and Location

The District is located in western Montgomery County, Texas, within the extraterritorial jurisdiction of the City, approximately one mile south of Texas State Highway 105, along the east side of Farm-to-Market Road 2854. The District is located within the Montgomery Independent School District. See "AERIAL LOCATION MAP."

Land Use

The District currently includes approximately 151 acres developed as 655 single-family residential lots and approximately 49 acres of land that are undevelopable consisting of thoroughfares, rights-of-way, detention ponds, lake amenities, easements, parks, recreational and open space. The table below represents a detailed breakdown of the current acreage and development in the District.

<u>Single Family Residential</u>	Approximate	
	<u>Acres</u>	<u>Lots</u>
Fairwater:		
Section One.....	2	6
Section Two.....	6	28
Section Three.....	12	54
Section Four.....	12	52
Section Five.....	7	28
Section Six.....	11	43
Section Seven.....	18	89
Section Eight.....	14	65
Section Nine.....	12	51
Section Ten.....	11	66
Section Eleven (a).....	23	82
Section Twelve (a).....	23	91
<i>Subtotal</i>	<u>151</u>	<u>655</u>
Future Development.....	-	-
Undevelopable (b).....	<u>49</u>	<u>-</u>
<i>Totals</i>	200	655

(a) See "RISK FACTORS—Vacant Lots."

(b) Represents thoroughfares, rights-of-way, detention ponds, lakes, amenities, easements, parks, and recreational and open space. See "RISK FACTORS—Slope Reconstruction."

Status of Development

Single-family residential development in the District consists of Fairwater, Sections One through Twelve (655 single-family residential lots on approximately 151 acres). As of February 26, 2025, 474 homes were completed of which 472 are occupied, 8 homes were under construction and/or listed in a builder's name and 173 vacant developed lots were available for home construction. According to the Developer, there has been a delay in finding a homebuilder to take down the available vacant developed lots. The Developer expects home construction on the vacant developed lots in the District to begin in the next 90-120 days. See "RISK FACTORS—Vacant Lots." The estimated population in the District based upon 3.5 persons per occupied single-family residence is 1,652. In addition, there are approximately 49 undevelopable acres of consisting of thoroughfares, rights-of-way, detention ponds, lake amenities, easements, parks, recreational and open space.

Homebuilding

Active homebuilding within the District is currently being performed by CastleRock Communities. According to the Developer, current home sales prices in the District range from approximately \$307,000 to \$425,000.

THE DEVELOPER

General

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

Prospective Bond purchasers should note that the prior real estate experience of the Developer should not be construed as an indication that further development within the District will occur, or that 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. See "RISK FACTORS."

Forestar

Forestar (USA) Real Estate Group, Inc., a Delaware corporation, is the developer of Fairwater, Section 1 through 10 (approximately 105 acres, 482 lots) within the District ("Forestar"). In 2022, Forestar sold approximately 46 acres to GG B2R Pecan Fairwater LP, a Delaware corporation ("Great Gulf") for development of approximately 46 acres in the District as Fairwater, Sections Eleven and Twelve (approximately 173 lots). The utility and paving construction has been completed for such lots, but home construction has not yet begun. See "RISK FACTORS—Vacant Lots." Forestar does not own any additional land within the District.

Forestar is a wholly-owned subsidiary of Forestar Group, Inc., a Delaware corporation with its principal place of business in Arlington, Texas, that specializes in real estate development ("Forestar Group"). Forestar Group is a majority owned subsidiary of DR Horton, Inc., a Delaware corporation ("DR Horton"), is a national homebuilder.

Forestar Group and DR Horton are publicly traded companies listed on the New York Stock Exchange under the symbols "FOR" and "DHI," respectively, and are subject to the reporting requirements of the Securities Exchange Act of 1934. In accordance therewith, Forestar Group and DR Horton file reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, as of particular dates, is disclosed in certain reports and statements filed with the SEC. All such reports and statements may be inspected and copied at the public reading room maintained by the SEC at 100 F St. N.E., Washington, D.C. 20569, and electronically through the SEC's website (www.sec.gov).

In addition, the Forestar Group makes available on its web site <http://www.forestar.com> their annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and any amendments to those reports) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as practicable after they have been electronically filed with the SEC as well as other financial institutions. **Unless otherwise specified, information contained on the Forestar Group's web site available by hyperlink or on the SEC's web site, is not incorporated into this OFFICIAL STATEMENT.**

None of the Developer, Forestar Group, or DR Horton, nor any affiliates of the Developer, Forestar Group, or DR Horton, are responsible for, liable for, or have made any commitment for payment of the Bonds or other obligations of the District. None of the Developer, Forestar Group, DR Horton, nor any affiliates of the Developer, or DR Horton, have any legal commitment to the District or the holders of the Bonds to continue development of the land within the District, and the Developer may sell or otherwise dispose of property within the District, or any assets, at any time.

MANAGEMENT OF THE DISTRICT

Board of Directors

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

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
Ronald White	President	May 2026
Stephanie Trevino	Vice President	May 2026
Marcus Campbell	Secretary	May 2028
Camaaron Jackson	Assistant Secretary	May 2028
Scott Robb	Assistant Vice President	May 2026

District Consultants

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

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District’s bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

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

Auditor: The District’s financial statements for the fiscal year ending September 30, 2024, were audited by McGrath & Co., PLLC, Certified Public Accountants. See “APPENDIX A” for a copy of the District’s audited financial statements for the fiscal year ending September 30, 2024.

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

Tax Appraisal: The Montgomery Central Appraisal District has the responsibility of appraising all property within the District. See “TAXING PROCEDURES.”

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

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. (the “Bookkeeper”) for bookkeeping services.

Utility System Operator: The operator of the District’s internal water and wastewater system is Municipal District Services, LLC.

THE SYSTEM

Regulation

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

Water Supply

Water supply for the District is provided pursuant to a Wholesale Water Service Agreement (the "Water Service Agreement") between the District and MSEC Enterprises, Inc. ("MSEC"). MSEC provides groundwater and surface water to the District on a wholesale basis at rates (consisting of a capacity charge and a volume charge) generally applicable and uniformly applied to similarly situated purchasers of water from MSEC. Pursuant to the terms and conditions of the Water Service Agreement, the District is responsible for all costs necessary to design and construct its own water distribution system that extends to its retail customers and connects to MSEC's own water supply and distribution system. Under the terms of the Water Service Agreement, MSEC will deliver a maximum of 1,500,000 gallons per minute ("gpm") of treated water daily, which is adequate to serve approximately 700 equivalent single-family connections ("ESFCs"). As of January 2025, the District was serving 500 active connections.

Wastewater Treatment

Wastewater for the District is provided by an interim 210,000 gallon per day package plant wastewater treatment plant facility ("WWTP"). The WWTP is currently capable of adequately serving 700 ESFCs based on the design flow rate of 300 gallons per day per ESFC. The District currently leases the interim WWTP equipment from AUC Group, Inc., with an option to purchase. As of January 2025, the District was serving 500 active connections.

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. See "RISK FACTORS—Slope Reconstruction" and "—Extreme Weather."

The District ultimately outfalls storm water into Martin Creek. Approximately 1.6 acres of the District are within the Shaded Zone X of the FIRM map. This area lies outside the detailed study area of Martin Creek and is denoted on the map as an area of 0.2% annal chance of flooding; an area of 1% chance flood with average depths of less than 1-foot; or with a drainage area of less than 1 square mile. No lots are shown in this area and the area will be used as a detention and ultimate outfall for the District.

ROAD SYSTEM

The District's road system ("Roads") consists of one collector road, Fairwater Parkway Place, and internal streets. Fairwater Parkway Place is the primary point of access to the District and connects the internal streets with the major thoroughfare Farm-to-Market Road 2854. Farm to Market Road 2854 ultimately connects to State Highway 105 and U.S. Interstate Highway 45. All roadways are designed and constructed in accordance with Montgomery County's and the City's, standards, rules, and regulations. Upon acceptance by Montgomery County, Montgomery County is responsible for the operation and maintenance of the Roads.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2024 Certified Taxable Assessed Valuation.....	\$148,790,251	(a)
Estimated Taxable Assessed Valuation as of December 15, 2024	\$169,041,060	(b)
Gross Direct Debt Outstanding	\$19,595,000	(c)
Estimated Overlapping Debt	<u>10,440,840</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$30,035,840	
Ratios of Gross Direct Debt to:		
2024 Certified Taxable Assessed Valuation	13.17%	
Estimated Taxable Assessed Valuation as of December 15, 2024	11.59%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2024 Certified Taxable Assessed Valuation	20.19%	
Estimated Taxable Assessed Valuation as of December 15, 2024	17.77%	
Funds Available for Debt Service:		
WSD Debt Service Funds Available as of February 26, 2025	\$90,234	
Road Debt Service Funds Available as of February 26, 2025.....	112,260	
Capitalized Interest from proceeds of the Bonds	<u>285,000</u>	(e)
Total Funds available for Debt Service	\$487,494	
WSD Capital Projects Funds Available as of February 26, 2025.....	\$2,133,878	(f)(g)
Road Capital Projects Funds Available as of February 26, 2025	\$326,758	
Operating Funds Available as of February 26, 2025	\$298,422	

- (a) As certified by the Montgomery Central Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on December 15, 2024. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2024 and December 15, 2024, will be certified as of January 1, 2025. See “TAXING PROCEDURES.”
- (c) Includes the Outstanding Bonds and the Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Debt.”
- (d) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt.”
- (e) See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
- (f) The District intends to use approximately \$191,000 of surplus construction funds towards the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
- (g) Approximately \$1,940,000 of such balance is related to the Series 2024 BAN proceeds.

Short Term Debt

The District issued a \$3,500,000 principal amount Bond Anticipation Note, Series 2024 (the “2024 BAN”) on July 2, 2024, with a maturity date of July 1, 2025. The District will use a portion of Bond proceeds to redeem the 2024 BAN prior to maturity. The 2024 BAN is payable solely with Bond proceeds. Proceeds from the 2024 BAN were used to reimburse the Developer for a portion of certain costs shown under “USE AND DISTRIBUTION OF BOND PROCEEDS” and to fund the slope reconstruction project. See “RISK FACTORS—Slope Reconstruction.”

Outstanding Debt

The District has previously issued \$8,660,000 principal amount of unlimited tax bonds for road facilities in two series and \$5,500,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities in one series, of which \$13,595,000 remains outstanding (the “Outstanding Bonds”).

Series	Original Principal Amount	Outstanding Bonds
2021 (a)	\$ 4,000,000	\$ 3,755,000
2022 (a)	4,660,000	4,555,000
2023	<u>5,500,000</u>	<u>5,285,000</u>
Total	\$ 14,160,000	\$ 13,595,000

- (a) Unlimited tax road bonds.

Investments of the District

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

Debt Service Requirements

The following sets forth the debt service on the Outstanding Bonds and the Bonds. This schedule does not reflect the fact that \$285,000 of interest will be capitalized from proceeds of the Bonds to pay debt service on the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Outstanding Bonds	Plus: Debt Service on The Bonds			Total
	Debt Service	Principal	Interest	Total	Debt Service
2025	\$ 987,718.75		\$ 101,549.29	\$ 101,549.29	\$ 1,089,268.04
2026	978,023.75	\$ 130,000	283,550.00	413,550.00	1,391,573.75
2027	962,810.00	135,000	274,771.88	409,771.88	1,372,581.88
2028	952,150.00	140,000	265,662.50	405,662.50	1,357,812.50
2029	946,087.50	150,000	256,056.25	406,056.25	1,352,143.75
2030	934,212.50	155,000	245,953.13	400,953.13	1,335,165.63
2031	921,907.50	165,000	235,353.13	400,353.13	1,322,260.63
2032	912,387.50	170,000	224,256.25	394,256.25	1,306,643.75
2033	904,567.50	180,000	213,225.00	393,225.00	1,297,792.50
2034	901,287.50	190,000	203,906.25	393,906.25	1,295,193.75
2035	897,012.50	195,000	195,965.63	390,965.63	1,287,978.13
2036	891,787.50	205,000	187,715.63	392,715.63	1,284,503.13
2037	885,787.50	215,000	179,053.13	394,053.13	1,279,840.63
2038	879,072.50	225,000	169,978.13	394,978.13	1,274,050.63
2039	871,277.50	240,000	160,387.50	400,387.50	1,271,665.00
2040	862,740.00	250,000	150,281.25	400,281.25	1,263,021.25
2041	858,080.00	260,000	139,600.00	399,600.00	1,257,680.00
2042	847,510.00	275,000	128,059.38	403,059.38	1,250,569.38
2043	841,350.00	285,000	115,809.38	400,809.38	1,242,159.38
2044	838,975.00	300,000	102,825.00	402,825.00	1,241,800.00
2045	825,362.50	315,000	88,987.50	403,987.50	1,229,350.00
2046	821,150.00	330,000	74,475.00	404,475.00	1,225,625.00
2047	810,962.50	345,000	59,287.50	404,287.50	1,215,250.00
2048	229,950.00	365,000	43,312.50	408,312.50	638,262.50
2049	219,975.00	380,000	26,550.00	406,550.00	626,525.00
2050	-	400,000	9,000.00	409,000.00	409,000.00
Total	\$ 20,982,145.00	\$ 6,000,000	\$ 4,135,571.16	\$ 10,135,571.16	\$ 31,117,716.16

Average Annual Debt Service Requirements (2025-2050) \$1,196,835
Maximum Annual Debt Service Requirement (2026) \$1,391,574

Estimated Overlapping Debt

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

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Montgomery County	\$417,980,000	1/31/25	0.15%	\$ 626,970
Montgomery Independent School District	597,520,000	1/31/25	1.60%	9,560,320
Lone Star College System	507,100,000	1/31/25	0.05%	253,550
Total Estimated Overlapping Debt.....				\$ 10,440,840
The District's Total Direct Debt (a)				19,595,000
Total Direct and Estimated Overlapping Debt				\$30,035,840

Direct and Estimated Overlapping Debt as a Percentage of:

2024 Certified Taxable Assessed Valuation of \$148,790,251	20.19%
Estimated Taxable Assessed Valuation as of December 15, 2024 of \$169,041,060	17.77%

(a) Includes the Outstanding Bonds and the Bonds.

Overlapping Taxes

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

Set forth below are all of the taxes levied for the 2024 tax year by all taxing jurisdictions overlapping the District and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>Tax Rate per \$100 of Taxable Assessed Valuation</u>
Montgomery County	\$ 0.37900
Montgomery County Hospital District	0.04970
Montgomery Independent School District	1.09120
Lone Star College System	0.10760
Montgomery County ESD No. 2	0.10000
Total Overlapping Tax Rate	\$ 1.72750
The District	1.37000
Total Tax Rate	\$ 3.09750

General Operating Fund

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the fiscal years ended September 30, 2020 through 2024. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	Fiscal Year Ended September 30,				
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues:					
Property Taxes	\$ 1,056,963	\$ 529,822	\$ 237,766	\$ 61,404	\$ 39,271
Water and Sewer Service	699,273	635,908	430,338	116,482	30,611
Penalty and Interest	11,871	10,359	6,958	1,431	4,445
Ground Water Fees	191,474	181,575	103,609	29,598	11,507
Tap Connection & Inspection	73,001	77,256	493,638	194,260	82,045
Investment Earnings	20,952	12,071	741	47	45
Miscellaneous	1,827	2,403	1,075	2,660	3,045
Total Revenue	\$ 2,055,361	\$ 1,449,394	\$ 1,274,125	\$ 405,882	\$ 170,969
Expenditures:					
Professional Fees	\$ 218,821	\$ 104,294	\$ 106,637	\$ 117,593	\$ 100,094
Purchased Water Services	680,696	623,909	412,953	146,339	60,858
Repairs and Maintenance	317,257	308,311	335,885	134,527	35,062
Administrative	49,528	32,496	28,190	35,278	13,912
Contracted Services	238,366	216,383	372,149	130,687	119,403
Utilities	29,103	28,680	-	-	-
Other	3,723	7,618	1,877	665	2,303
Lease Principal and Interest	238,200	238,200	238,200	198,500	-
Total Expenditures	\$ 1,775,694	\$ 1,559,891	\$ 1,495,891	\$ 763,589	\$ 331,632
NET REVENUES	<u>\$ 279,667</u>	<u>\$ (110,497)</u>	<u>\$ (221,766)</u>	<u>\$ (357,707)</u>	<u>\$ (160,663)</u>
Other Financing Sources(a)					
Developer Advances	\$ -	\$ 200,000	\$ 200,000	\$ 225,000	\$ 250,000
Internal Transfers			(500)		
General Operating Fund					
Balance (Beginning of Year)	\$ (7,031)	\$ (96,534)	\$ (74,268)	\$ 58,439	\$ (30,898)
General Operating Fund					
Balance (End of Year)	\$ 272,636	\$ (7,031)	\$ (96,534)	\$ (74,268)	\$ 58,439

(a) Developer advances.

TAX DATA

Debt Service Tax

The District covenants in the Bond Resolution 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. See “Historical Tax Rate Distribution” and “Tax Roll Information” below and “TAXING PROCEDURES.”

Maintenance and Operations Tax

The District has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted on November 5, 2019, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 of assessed valuation.

Historical Tax Rate Distribution

	2024	2023	2022	2021	2020
Debt Service Tax	\$ 0.56	\$ 0.51	\$ 0.50	\$ -	\$ -
Maintenance and Operations Tax	0.81	0.84	0.85	1.35	1.35
Total District Tax Rate	\$ 1.37	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.35

Additional Penalties

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

Exemptions

The District grants a \$10,000 exemption to residential homesteads of persons who are 65 years of age or older or disabled.

Historical Tax Collections

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

Tax Year	Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy	Total Collections As of 2/26/2025 (b)	
				Amount	Percent
2019	\$ 2,908,980	\$ 1.35	\$ 39,271	\$ 39,271	100.00%
2020	4,576,960	1.35	61,789	61,789	100.00%
2021	17,595,331	1.35	237,537	237,537	100.00%
2022	62,700,332	1.35	846,454	841,330	99.39%
2023	129,141,474	1.35	1,743,410	1,713,523	98.29%
2024	148,790,251	1.37	2,038,426	1,904,706	93.44%

- (a) As certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below.
 (b) Unaudited.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2022 through 2024 Certified Taxable Assessed Valuations. A breakdown of the Estimated Taxable Assessed Valuation as of December 15, 2024, of \$169,041,060 is not available. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	2024	2023	2022
	Taxable	Certified Taxable	Certified Taxable
	Assessed Valuation	Assessed Valuation	Assessed Valuation
Land	\$ 37,068,668	\$ 34,868,040	\$ 28,919,390
Improvements	122,694,942	101,223,760	36,349,030
Personal Property	553,685	83,811	67,540
Gross Assessed Valuation	\$ 160,317,295	\$ 136,175,611	\$ 65,335,960
Less: Exemptions	(11,527,044)	(7,034,137)	(2,635,628)
Total	\$ 148,790,251	\$ 129,141,474	\$ 62,700,332

Principal Taxpayers

The following table represents the principal taxpayers, the taxable assessed valuation of such property, and such property's taxable assessed valuation as a percentage of the certified portion of the 2024 Certified Taxable Assessed Valuation (\$148,790,251). An accurate principal taxpayer list in connection with the Estimated Taxable Assessed Valuation as of December 15, 2024, of \$169,041,060 is not available as of the date hereof.

	2024	% of 2024
Taxpayer	Taxable Assessed	Taxable Assessed
	Valuation	Valuation
CastleRock Communities LP (a)	\$ 1,468,910	0.99%
Ladybug Landing Investments LLC	1,007,320	0.68%
Jaren R. Kiyokawas Revocable Trust	747,327	0.50%
GG B2R Pecan Fairwater LP (b)	736,210	0.49%
Individual	625,851	0.42%
Individual	610,540	0.41%
Individual	518,349	0.35%
Individual	493,794	0.33%
Individual	488,000	0.33%
Individual	479,227	0.32%
Total	\$ 7,175,528	4.82%

(a) See "THE DISTRICT—Homebuilding."

(b) Represents vacant available lots for home construction. See "THE DEVELOPER" and "RISK FACTOR—Vacant Lots."

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2024 Certified Taxable Assessed Valuation of \$148,790,251 and the Estimated Taxable Assessed Valuation as of December 15, 2024, of \$169,041,060. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "RISK FACTORS—Possible Impact on District Tax Rates" and "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

Average Annual Debt Service Requirement (2025-2050)	\$1,196,835
\$0.85 Tax Rate on the 2024 Certified Taxable Assessed Valuation	\$1,201,481
\$0.75 Tax Rate on the Estimated Taxable Assessed Valuation as of December 15, 2024	\$1,204,418
Maximum Annual Debt Service Requirement (2026).....	\$1,391,574
\$0.99 Tax Rate on the 2024 Certified Taxable Assessed Valuation	\$1,399,372
\$0.87 Tax Rate on the Estimated Taxable Assessed Valuation as of December 15, 2024	\$1,397,124

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of December 15, 2024 provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or its inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Montgomery Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery Central Appraisal Review Board (the "Appraisal Review Board").

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous 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. For the tax year 2025, the District granted a \$10,000 homestead exemption for individuals disabled and/or 65 years of age or older. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of

age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, effective January 1, 2012, 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. Also, the surviving spouse of a member of the armed forces who was killed or fatally injured in the line of duty, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

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

Freeport Goods and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Montgomery County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Montgomery County, the City and the District, under certain circumstances, 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 appraised valuation of property covered by the agreement over its appraised 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 agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. To date, neither Montgomery County nor the City has designated land 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 100% of market value, as such is defined in the Property Tax Code. A residence homestead is required to be appraised solely on the basis of its value as a residence homestead regardless of whether residential use is considered to be the highest and best use of the property.

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

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

District and Taxpayer Remedies

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which 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 value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and 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 penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. 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, which may be rejected by taxing units. 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) sixty-five (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.

Tax Payment Installments After 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 Texas 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.

Rollback of Operation and Maintenance Tax Rate

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

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

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

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

The District: A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. The 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. For tax year 2024, the Board of Directors of the District designated the District as a Developing District.

District's Rights in the Event of Tax Delinquencies

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

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 subject to the restrictions on residential homesteads described in the preceding section under "Levy and Collection of Taxes". 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 six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "RISK FACTORS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

RISK FACTORS

General

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

Slope Reconstruction

In March 2024, the District was notified of significant erosion near Fairwater Detention Pond 6A, which directly affected the properties of three homeowners within the District. The District authorized an emergency reconstruction of a slope on Fairwater Detention Pond 6A within the District and work commenced to remediate the erosion issues by rehabilitating and reconstructing the pond slope in May 2024. The slope reconstruction efforts were impacted by unforeseen heavy rainfall in May and June. See "Extreme Weather," herein. Such emergency slope reconstruction efforts were completed in July 2024 and as of this date, such work has stabilized the affected area and no further erosion of the area has been reported. The District has engaged a design-build firm to permanently reconstruct the slope. Construction has commenced and completion is expected in April 2025. According to the Engineer, the erosion reconstruction is expected to cost approximately \$4.06 million. The District intends to use a portion of the Bond proceeds to fund the costs for the pond slope reconstruction, a portion of which was made available with proceeds of the Series 2024 BAN proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Vacant Lots

There are approximately 173 developed lots owned by Great Gulf are served with utilities but remain vacant. The District makes no representation as to when or if development of the undeveloped acreage will occur or the success of any homebuilding programs. Failure of the Developer and/or homebuilders to construct taxable improvements on developed lots could restrict the rate of growth of taxable values in the District. See "THE DISTRICT—Land Use" and "—Status of Development."

Developer Obligation to the District

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

Economic Factors and Interest Rates

The majority of the taxable value of the District results from the current market value of single-family residences and of developed lots which are currently being marketed by Great Gulf for sale to homebuilders and homebuyers for the construction of primary residences. The market value of such homes and lots is related to general economic conditions in the Houston region and the national economy and those conditions can affect the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability (see "Credit Market and Liquidity in the Financial Markets"), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. The District is located in Montgomery County, within the extraterritorial jurisdiction of the City of Conroe, and the success of development within the District and growth of District taxable property values are, to a great extent, a function of the greater Houston region metropolitan area economy.

Credit Markets and Liquidity in the Financial Markets

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

Competition

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

The competitive position of the Developer in the sale of developed lots and the construction of single-family residential houses within the District by homebuilders is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District.

The District can give no assurance that building and marketing programs in the District planned by the Developer and their affiliates will be implemented or, if implemented, will be successful.

Potential Effects of Oil Price Volatility on the Houston Area

The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The District cannot predict the impact that negative conditions in the oil industry could have on property values in the District.

Extreme Weather

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

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

Specific Flood Type Risks

River (or Fluvial) Flood: 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 sheetflow overland. 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 floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee or dam has failed, or after a sudden release of water by a debris or ice jam. Controlled releases from a dam or levee also could potentially create a flooding condition in rivers or man-made drainage systems (canals or channels) downstream.

Ponding (or Pluvial) Flood: occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can over capacitate a drainage system which becomes trapped and flows out into streets and nearby structures until it reaches a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, or levee, or reservoir.

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 interim floodplain regulations applying to a larger number of properties. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

Possible Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2024 Certified Taxable Assessed Valuation is \$148,790,251. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,391,574 (2026), and the average annual debt service requirement will be \$1,196,835 (2025-2050 inclusive). Assuming no increase or decrease from 2024 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, a tax rate of \$0.99 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and \$0.85 per \$100 taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the average annual debt service requirements. The Estimated Taxable Assessed Valuation as of December 15, 2024 is \$169,041,060, which is subject to review and downward adjustment prior to certification and decreases the above calculations to \$0.75 and \$0.87 per \$100 of taxable assessed valuation, respectively. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "TAX DATA—Tax Adequacy for Debt Service."

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of December 15, 2024, will be the amounts finally certified by the Appraisal District and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

Tax Collections Limitations and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial 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, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds and the Outstanding Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

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 Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. 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 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 negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal 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, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid purpose. The District's voters have authorized a total of \$88,600,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring water, wastewater, and drainage facilities and for refunding such bonds, \$55,300,000 principal amount of unlimited tax bonds for the purpose of constructing roads and related facilities and for refunding such bonds and \$7,200,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring park and recreational facilities and for refunding such bonds. After the issuance of the Bonds, \$77,100,000 principal amount of the unlimited tax bonds for water, wastewater and drainage and refunding such bonds will remain authorized but unissued, \$46,640,000 principal amount of the unlimited tax bonds for road facilities and refunding such bonds will remain authorized but unissued and all of the authorized amounts for park and recreational facilities and refunding such bonds will be authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and could adversely affect the security for, and the investment quality and value of, the Bonds.

To date, the Developer has advanced certain funds for engineering and construction of water, wastewater and drainage facilities, recreational facilities and roads and related facilities for which they have not been reimbursed. After the reimbursements are made with Bond proceeds, the District will owe approximately \$16,760,000 plus interest to the Developer. The District intends to issue additional bonds in order to reimburse the Developer for existing development. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. Further, the principal amount of unlimited tax 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 three percent (3%) of the value of the taxable property in the District. The issuance of additional bonds for water, wastewater and drainage facilities and park and recreational facilities is subject to approval by the TCEQ (as defined herein) pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

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 “serious” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2027. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

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

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

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

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 utility district must comply may have an impact on the municipal utility 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 August 15, 2025. 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 utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

Marketability of the Bonds

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

2025 Legislative Session

The 89th Regular Legislative Session convened on January 14, 2025 and will conclude on June 2, 2025. The Governor of Texas may call additional special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, elections, and other matters which could adversely affect the District and also affect the marketability or market value of the Bonds. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions. While the enactment of future legislation in Texas could adversely affect the financial condition or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District’s obligation to levy an unlimited annual ad valorem tax, would be adversely affected by any such legislation.

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.

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Underwriter has entered into an agreement with Build America Mutual Assurance Company (“BAM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE” and “APPENDIX B—Specimen Municipal Bond Insurance Policy.”

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

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer. Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without 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, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations for the purpose of determining the alternative minimum tax imposed on corporations.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “THE BONDS,” “THE DISTRICT—General,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS”, and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

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

No Material Adverse Change

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals, however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”)) for the purpose of determining the alternative minimum tax imposed on corporations.

The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Bond Resolution that it will comply with these requirements.

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

Under the Code, taxpayers are required to report on their returns the amount of tax exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an “exempt recipient” and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

Qualified Tax-Exempt Obligations

The 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 or on behalf of 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 as “qualified tax-exempt obligations” and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2025 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during calendar year 2025.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

MUNICIPAL BOND RATING

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) with the understanding that, upon issuance and delivery of the Bonds, a municipal bond insurance policy ensuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”). No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B—Specimen Municipal Bond Insurance Policy.”

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its municipal bond Insurance policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this OFFICIAL STATEMENT.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

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

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2024 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$498.6 million, \$253.4 million and \$245.2 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

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

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the District's water, wastewater and storm drainage system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by LJA Engineering, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as the District's Engineer.

Auditor: The District's financial statements for the fiscal year ended September 30, 2024 were audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's September 30, 2024, financial statements.

Updating the Official Statement

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

Certification of Official Statement

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," "TAX DATA," "DEBT SERVICE REQUIREMENTS" and in APPENDIX A (Financial Statements of the District and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2025. Any financial statements provided by the District shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable year to the MSRB within such six-month period and audited financial statements when the audit becomes available.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger,

consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (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 Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from the MSRB

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an 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; nor has the District 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 Registered or 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 from time to time to adapt to the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the Registered Owners of a majority in aggregate principal amount of the Outstanding Bonds consent to the amendment 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 Registered and Beneficial Owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

During the past five years, the District has complied in all material respects with its prior continuing disclosure agreements made by the District in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

/s/ Ronald White
President, Board of Directors

ATTEST:

/s/ Marcus Campbell
Secretary, Board of Directors

AERIAL LOCATION MAP
(As of December 2024)

**MONTGOMERY COUNTY
MUNICIPAL UTILITY DISTRICT No. 166**

FM 2854



PHOTOGRAPHS OF THE DISTRICT
(As of December 2024)













APPENDIX A

Financial Statement of the District for the fiscal year ended September 30, 2024

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 166**

MONTGOMERY COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2024

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McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

Board of Directors
Montgomery County Municipal Utility District No. 166
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. 166 (the "District"), as of and for the year ended September 30, 2024, 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 Montgomery County Municipal Utility District No. 166, as of September 30, 2024, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the District implemented GASB Implementation Guide 2021-1, Question 5.1 during the current fiscal year. Our opinion is not modified with respect to this matter.

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.

***Board of Directors
Montgomery County Municipal Utility District No. 166
Montgomery County, Texas***

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.

***Board of Directors
Montgomery County Municipal Utility District No. 166
Montgomery County, Texas***

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information 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 Texas Supplementary Information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information 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 Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

McGuire & Co, LLC

Houston, Texas
January 30, 2025

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Management's Discussion and Analysis

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Montgomery County Municipal Utility District No. 166
Management's Discussion and Analysis
September 30, 2024

Using this Annual Report

Within this section of the financial report of Montgomery County Municipal Utility District No. 166 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2024. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Financial Analysis of the District as a Whole

The District's net position at September 30, 2024, was negative \$12,568,152. The District's net position is negative because the District incurs debt to construct road facilities which it conveys to Montgomery County. A comparative summary of the District's overall financial position, as of September 30, 2024 and 2023, is as follows:

	2024	2023
Current and other assets	\$ 4,059,493	\$ 1,886,159
Capital assets	19,671,760	14,632,239
Total assets	23,731,253	16,518,398
Current liabilities	4,909,166	1,148,112
Long-term liabilities	31,390,239	26,621,378
Total liabilities	36,299,405	27,769,490
Net position		
Net investment in capital assets	(3,398,155)	(3,378,000)
Restricted	431,841	733,931
Unrestricted	(9,601,838)	(8,607,023)
Total net position	\$ (12,568,152)	\$ (11,251,092)

During the current fiscal year, the District implemented GASB Implementation Guide ("GASBIG") 2021-1, Question 5.1, which requires the capitalization of a group of individual assets that are below the capitalization threshold when the cost of the acquisition of the assets in the aggregate is significant. In accordance with this standard, the District recognized, as infrastructure capital assets, water meters that were previously expensed in prior fiscal years, net of related accumulated depreciation, as of the beginning of the current fiscal year. Prior year data has not been restated to include values for these

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infrastructure assets and, as a result, the presentation of prior year data as it relates to these assets is not consistent with the current year presentation (see Notes 3 and 6).

The total net position of the District decreased during the current fiscal year by \$1,631,021. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2024	2023
Revenues		
Property taxes, penalties and interest	\$ 1,774,877	\$ 868,006
Water and sewer service	699,273	635,908
Other	403,035	296,938
Total revenues	<u>2,877,185</u>	<u>1,800,852</u>
Expenses		
Current service operations	1,590,404	1,426,907
Debt interest and fees	629,512	319,312
Developer interest		577,503
Debt issuance costs	79,000	483,329
Depreciation/amortization	684,000	586,754
Total expenses	<u>2,982,916</u>	<u>3,393,805</u>
Change in net position before other item	(105,731)	(1,592,953)
Other item		
Transfers to other governments	<u>(1,525,290)</u>	
Change in net position	(1,631,021)	(1,592,953)
Net position, beginning of year (2024 restated)	<u>(10,937,131)</u>	<u>(9,658,139)</u>
Net position, end of year	<u><u>\$ (12,568,152)</u></u>	<u><u>\$ (11,251,092)</u></u>

As previously noted, the District implemented GASB 2011-1, Question 5.1 during the current year and, as a result, has restated its beginning net position for the current fiscal year. Prior year data is not consistent with current year data due to the recognition of certain capital assets and the related accumulated depreciation at the beginning of the current fiscal year (See Notes 3 and 6).

Financial Analysis of the District's Funds

The District's combined fund balances, as of September 30, 2024, were \$3,348,320, which consists of \$272,636 in the General Fund, \$447,055 in the Debt Service Fund, and \$2,628,629 in the Capital Projects Fund.

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Management's Discussion and Analysis
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General Fund

A comparative summary of the General Fund's financial position as of September 30, 2024 and 2023, is as follows:

	2024	2023
Total assets	<u>\$ 737,945</u>	<u>\$ 456,022</u>
Total liabilities	\$ 434,259	\$ 459,185
Total deferred inflows	31,050	3,868
Total fund balance	272,636	(7,031)
Total liabilities, deferred inflows and fund balance	<u>\$ 737,945</u>	<u>\$ 456,022</u>

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

	2024	2023
Total revenues	\$ 2,055,361	\$ 1,449,394
Total expenditures	<u>(1,775,694)</u>	<u>(1,559,891)</u>
Revenues over/(under) expenditures	279,667	(110,497)
Other changes in fund balance		200,000
Net change in fund balance	<u>\$ 279,667</u>	<u>\$ 89,503</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District and tap connection fees charged to homebuilders in the District. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While the District decreased its maintenance tax levy, property tax revenues increased because assessed values in the District increased from the prior year.
- Water, sewer and ground water fee revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District.

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Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of September 30, 2024 and 2023, is as follows:

	2024	2023
Total assets	<u>\$ 476,365</u>	<u>\$ 759,298</u>
Total deferred inflows	\$ 29,310	\$ 3,478
Total fund balance	<u>447,055</u>	<u>755,820</u>
Total deferred inflows and fund balance	<u>\$ 476,365</u>	<u>\$ 759,298</u>

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

	2024	2023
Total revenues	\$ 701,228	\$ 336,766
Total expenditures	<u>(1,009,993)</u>	<u>(435,955)</u>
Revenues under expenditures	(308,765)	(99,189)
Other changes in fund balance		551,575
Net change in fund balance	<u>\$ (308,765)</u>	<u>\$ 452,386</u>

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

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of September 30, 2024 and 2023, is as follows:

	2024	2023
Total assets	<u>\$ 2,845,183</u>	<u>\$ 670,839</u>
Total liabilities	\$ 216,554	\$ 11,743
Total fund balance	<u>2,628,629</u>	<u>659,096</u>
Total liabilities and fund balance	<u>\$ 2,845,183</u>	<u>\$ 670,839</u>

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

	2024	2023
Total revenues	\$ 67,582	\$ 7,522
Total expenditures	(1,598,049)	(4,589,639)
Revenues under expenditures	(1,530,467)	(4,582,117)
Other changes in fund balance	3,500,000	4,748,425
Net change in fund balance	\$ 1,969,533	\$ 166,308

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2024 Bond Anticipation Note in the current year and issuance of its Series 2023 Unlimited Tax Bonds in the prior year.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated expenditures.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$199,546 greater than budgeted. The *Budgetary Comparison Schedule* on page 42 of this report provides variance information per financial statement line item.

Capital Assets

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

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Capital assets held by the District at September 30, 2024 and 2023, are summarized as follows:

	2024	2023
Capital assets not being depreciated		
Land and improvements	\$ 1,303,705	\$ 1,289,736
Construction in progress	1,019,550	1,289,736
	<u>2,323,255</u>	<u>1,289,736</u>
Capital assets being depreciated/amortized		
Infrastructure	15,574,255	10,779,222
Right to use lease - wastewater treatment plant	1,108,233	1,108,233
Landscaping improvements	2,014,892	2,014,892
Water transmission facilities	992,932	992,932
	<u>19,690,312</u>	<u>14,895,279</u>
Less accumulated depreciation/amortization		
Infrastructure	(1,115,456)	(673,640)
Right to use lease - wastewater treatment plant	(849,647)	(628,000)
Landscaping improvements	(302,235)	(201,490)
Water transmission facilities	(74,469)	(49,646)
	<u>(2,341,807)</u>	<u>(1,552,776)</u>
Depreciable capital assets, net	<u>17,348,505</u>	<u>13,342,503</u>
Capital assets, net	<u>\$ 19,671,760</u>	<u>\$ 14,632,239</u>

As previously noted, the District implemented GASBIG 2021-1, Question 5.1 during the current year. As a result, prior year data is not consistent with current year data due to the recognition of certain capital assets and the related accumulated depreciation at the beginning of the current fiscal year (See Notes 3 and 6).

Capital asset additions during the current fiscal year include the following:

- Utilities to serve Fairwater Section 11, Fairwater Section 12 and Fairwater Parkway Phase II – Contract I
- Utilities to serve Fairwater Section 11, Fairwater Section 12 and Fairwater Parkway Phase II – Contract II

The District's construction in progress is for the construction of Improvements to FM 2854 - Phase 2 and Fairwater Pond A slope reconstruction projects.

Additionally, Montgomery County assumes responsibility (after a one-year maintenance period) for road facilities constructed within the boundaries of the County. Accordingly, these facilities are not considered assets of the District. The estimated value of these assets is recorded as transfers to other governments upon completion of construction. This estimated cost is trued-up when the developer is reimbursed. For the year ended September 30, 2024, capital assets in the amount of \$1,525,290 have been recorded as transfers to other governments in the government-wide statements.

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Management's Discussion and Analysis
September 30, 2024

Lease Obligations

The District has entered into various equipment lease obligations for interim wastewater treatment plants. The District recognized right-to-use leased assets and lease obligations in the amount of \$1,108,233 for these leases. The balance due for the leases as of September 30, 2024, was \$272,973.

Long-Term Debt and Related Liabilities

As of September 30, 2024, the District owes approximately \$18,190,682 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At September 30, 2024 and 2023, the District had total bonded debt outstanding as shown below:

Series	2024	2023
2021 Road	\$ 3,755,000	\$ 3,860,000
2022 Road	4,555,000	4,660,000
2023	5,285,000	5,500,000
	<u>\$ 13,595,000</u>	<u>\$ 14,020,000</u>

During the current year, the District issued a \$3,500,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See Note 7 for additional information.

Next Year's Budget

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

	2024 Actual	2025 Budget
Total revenues	\$ 2,055,361	\$ 2,148,821
Total expenditures	(1,775,694)	(2,009,200)
Revenues over expenditures	279,667	139,621
Beginning fund balance	(7,031)	272,636
Ending fund balance	<u>\$ 272,636</u>	<u>\$ 412,257</u>

***Montgomery County Municipal Utility District No. 166
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September 30, 2024***

Property Taxes

The District's property tax base increased approximately \$19,649,000 for the 2024 tax year from \$129,141,474 to \$148,790,251. This increase was primarily due to new construction in the District and increased property values. For the 2024 tax year, the District has levied a maintenance tax rate of \$0.81 per \$100 of assessed value, a water, sewer and drainage debt service tax rate of \$0.21 per \$100 of assessed value, and a road debt service tax rate of \$0.35 per \$100 of assessed value for a total combined tax rate of \$1.37 per \$100 of assessed value. Tax rates for the 2023 tax year were \$0.84 per \$100 for maintenance and operations, \$0.09 per \$100 for water, sewer and drainage debt service, and \$0.42 per \$100 for road debt service for a combined total of \$1.35 per \$100 of assessed value.

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Basic Financial Statements

Montgomery County Municipal Utility District No. 166
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2024

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Assets				
Cash	\$ 157,271	\$ 56,981	\$ 182,120	\$ 396,372
Investments	360,295	393,667	2,663,063	3,417,025
Taxes receivable	31,050	29,310		60,360
Customer service receivables	120,853			120,853
Internal balances	3,828	(3,828)		
Other receivables		235		235
Prepaid items	64,648			64,648
Capital assets not being depreciated				
Capital assets, net				
Total Assets	<u>\$ 737,945</u>	<u>\$ 476,365</u>	<u>\$ 2,845,183</u>	<u>\$ 4,059,493</u>
Liabilities				
Accounts payable	\$ 130,870	\$ -	\$ 115,967	\$ 246,837
Retainage payable			100,587	100,587
Other payables	2,505			2,505
Customer deposits	300,884			300,884
Accrued interest payable				
Bond anticipation note payable				
Due to developer				
Lease obligations				
Due within one year				
Due after one year				
Long-term debt				
Due within one year				
Due after one year				
Total Liabilities	<u>434,259</u>	<u></u>	<u>216,554</u>	<u>650,813</u>
Deferred Inflows of Resources				
Deferred property taxes	<u>31,050</u>	<u>29,310</u>	<u></u>	<u>60,360</u>
Fund Balances/Net Position				
Fund Balances				
Nonspendable	64,648			64,648
Restricted		447,055	2,628,629	3,075,684
Unassigned	207,988			207,988
Total Fund Balances	<u>272,636</u>	<u>447,055</u>	<u>2,628,629</u>	<u>3,348,320</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 737,945</u>	<u>\$ 476,365</u>	<u>\$ 2,845,183</u>	<u>\$ 4,059,493</u>
Net Position				
Net investment in capital assets				
Restricted for debt service				
Unrestricted				
Total Net Position				

See notes to basic financial statements.

<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ -	\$ 396,372
	3,417,025
	60,360
	120,853
	235
	64,648
2,323,255	2,323,255
17,348,505	17,348,505
<u>19,671,760</u>	<u>23,731,253</u>
	246,837
	100,587
	2,505
	300,884
89,937	89,937
3,500,000	3,500,000
18,190,682	18,190,682
233,416	233,416
39,557	39,557
435,000	435,000
13,160,000	13,160,000
<u>35,648,592</u>	<u>36,299,405</u>
<u>(60,360)</u>	
	(64,648)
	(3,075,684)
	(207,988)
	<u>(3,348,320)</u>
(3,398,155)	(3,398,155)
431,841	431,841
(9,601,838)	(9,601,838)
<u>\$ (12,568,152)</u>	<u>\$ (12,568,152)</u>

Montgomery County Municipal Utility District No. 166

**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2024**

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues				
Water service	\$ 317,815	\$ -	\$ -	\$ 317,815
Sewer service	381,458			381,458
Property taxes	1,056,963	639,731		1,696,694
Penalties and interest	11,871	13,298		25,169
Ground water fees	191,474			191,474
Tap connection and inspection	73,001			73,001
Miscellaneous	1,827	130		1,957
Investment earnings	20,952	48,069	67,582	136,603
Total Revenues	2,055,361	701,228	67,582	2,824,171
Expenditures/Expenses				
Current service operations				
Purchased services	680,696			680,696
Professional fees	218,821		21,321	240,142
Contracted services	238,366	27,886		266,252
Repairs and maintenance	317,257			317,257
Utilities	29,103			29,103
Administrative	49,528	3,548		53,076
Other	3,723		155	3,878
Capital outlay			1,497,573	1,497,573
Debt service				
Principal		425,000		425,000
Interest and fees		553,559		553,559
Debt issuance costs			79,000	79,000
Lease - principal	226,817			226,817
Lease - interest	11,383			11,383
Depreciation/amortization				
Total Expenditures/Expenses	1,775,694	1,009,993	1,598,049	4,383,736
Revenues Over (Under) Expenditures/Expenses	279,667	(308,765)	(1,530,467)	(1,559,565)
Other Financing Sources				
Proceeds from bond anticipation note			3,500,000	3,500,000
Other Item				
Transfers to other governments				
Net Change in Fund Balances	279,667	(308,765)	1,969,533	1,940,435
Change in Net Position				
Fund Balances/Net Position				
Beginning of the year, as reported	(7,031)	755,820	659,096	1,407,885
Change due to new accounting guidance (See Note 3)				
Beginning of the year, as restated	(7,031)	755,820	659,096	1,407,885
End of the year	\$ 272,636	\$ 447,055	\$ 2,628,629	\$ 3,348,320

See notes to basic financial statements.

Adjustments	Statement of Activities
\$ -	\$ 317,815
	381,458
53,014	1,749,708
	25,169
	191,474
	73,001
	1,957
	136,603
53,014	2,877,185
	680,696
	240,142
	266,252
	317,257
	29,103
	53,076
	3,878
(1,497,573)	
(425,000)	
64,570	618,129
	79,000
(226,817)	
	11,383
684,000	684,000
(1,400,820)	2,982,916
1,453,834	(105,731)
(3,500,000)	
(1,525,290)	(1,525,290)
(1,940,435)	
(1,631,021)	(1,631,021)
(12,658,977)	(11,251,092)
	313,961
(12,658,977)	(10,937,131)
\$ (14,599,412)	\$ (12,568,152)

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Montgomery County Municipal Utility District No. 166 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created and established in the 86th legislative session pursuant to House Bill 4682 (as codified in Chapter 8067 of the Texas Special District Local Laws Code), and operates in accordance with the Texas Water Code, Chapters 49 and 54. The District also operates under Section 52, Article III and Section 59, Article XVI of the Texas Constitution. The Board of Directors held its first meeting on August 12, 2019, and the first bonds were issued on September 22, 2021.

The District’s primary activities include construction, maintenance and operation of water, sewer, drainage, and park and recreational facilities and the construction of road facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

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

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

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

Use of Restricted Resources

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

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At September 30, 2024, an allowance for uncollectible accounts was not considered necessary.

Unbilled Service Revenues

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled at year-end has been included in the accompanying financial statements.

Interfund Activity

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

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets that individually are below the capitalization threshold but, in the aggregate, are above the threshold are capitalized. Subsequent replacements of these assets are not capitalized. Capital assets are recorded at historical cost or estimated historical cost. Right-to-use leased assets are valued at the present value of lease payments. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated (or amortized in the case of intangible assets) using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	10-45 years
Right-to-use leased assets	5 years
Landscaping improvements	20 years
Water transmission lines	40 years

Deferred Inflows and Outflows of Financial Resources

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Net Position – Governmental Activities

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

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

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

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of prepaid items.

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

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

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

Unassigned - all other spendable amounts in the General Fund.

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

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds	\$ 3,348,320
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 22,013,567	
Less accumulated depreciation/amortization	<u>(2,341,807)</u>	
Change due to capital assets		19,671,760

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

Bonds payable	(13,595,000)	
Bonds anticipation note payable	(3,500,000)	
Interest payable on bonds	<u>(89,937)</u>	
Change due to long-term debt		(17,184,937)

Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(18,190,682)
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Obligations under leases are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(272,973)
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Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.	60,360
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Total net position - governmental activities	<u><u>\$ (12,568,152)</u></u>
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Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

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

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

Net change in fund balance - total governmental funds	\$ 1,940,435
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Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes.	53,014
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Governmental funds report the principal portion of lease payments as expenditures in the funds; however, in the <i>Statement of Net Position</i> , these principal payments are recorded as a reduction to the long-term lease liability.	226,817
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Governmental funds report capital outlays for construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to depreciation expense over the estimated useful life of the asset. Public roads are conveyed to Montgomery County upon completion of construction and reported as transfers to other governments.

Capital outlays	\$ 1,497,573	
Transfers to other governments	(1,525,290)	
Depreciation/amortization expense	<u>(684,000)</u>	(711,717)

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

Issuance of bond anticipation note	(3,500,000)	
Principal payments	425,000	
Interest expense accrual	<u>(64,570)</u>	(3,139,570)

Change in net position of governmental activities	<u><u>\$ (1,631,021)</u></u>
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Note 3 – Implementation of New Accounting Guidance

During the current fiscal year, the District implemented GASB Implementation Guide (“GASBIG”) 2021-1, Question 5.1, which requires the capitalization of the acquisition of a group of individual capital assets whose individual acquisition costs are less than the capitalization threshold when the cost of the acquisition of the assets in the aggregate is significant. Under this new guidance, the District’s acquisition of water meters that exceeds the capitalization threshold in the aggregate should be recorded as Capital outlays instead of Contracted services in the *Statement of Revenues, Expenditures and Changes in Fund Balances*. On the government wide statements, the acquisition of water meters should not be recorded as an expense on the *Statement of Activities* but should be recorded as capital assets on the *Statement of Net Position*.

GASBIG 2021-1, Question 5.1 is required to be retroactively implemented, which means the District is required to record the acquisition of water meters that were expensed in previous fiscal years as infrastructure capital assets and to record the related accumulated depreciation at the beginning of the current fiscal year. Accordingly, the District has recorded a restatement to recognize \$313,961 in depreciable capital assets, which were measured at net book value (i.e., cost less accumulated depreciation) as of the beginning of the current fiscal year and increased its beginning net position by the same amount. Prior year amounts in the Management’s Discussion and Analysis and supplementary schedules were not restated.

Note 4 – Deposits and Investments

Deposit Custodial Credit Risk

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

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 4 – Deposits and Investments (continued)

Investments

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

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

As of September 30, 2024, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexSTAR	General	\$ 360,295	AAAm	24 days
	Debt Service	393,667		
	Capital Projects	2,663,063		
		<u>\$ 3,417,025</u>		

TexSTAR

The Texas Short Term Asset Reserve fund ("TexSTAR") is managed by Hilltop Securities, and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

TexSTAR uses amortized cost rather than fair value to report net assets to compute share price. Accordingly, investments in TexSTAR are stated at amortized cost which approximates fair value. Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 4 – Deposits and Investments (continued)

Investment Credit and Interest Rate Risk

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

Note 5 – Interfund Balances and Transactions

Amounts due to/from other funds at September 30, 2024, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 3,828	Maintenance tax collections not remitted as of year end

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

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 6 – Capital Assets

A summary of changes in capital assets, for the year ended September 30, 2024, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 1,289,736	\$ 13,969	\$ 1,303,705
Construction in progress		1,019,550	1,019,550
	<u>1,289,736</u>	<u>1,033,519</u>	<u>2,323,255</u>
Capital assets being depreciated/amortized			
Infrastructure	11,198,214	4,376,041	15,574,255
Right to use lease - wastewater treatment plant	1,108,233		1,108,233
Landscaping improvements	2,014,892		2,014,892
Water transmission facilities	992,932		992,932
	<u>15,314,271</u>	<u>4,376,041</u>	<u>19,690,312</u>
Less accumulated depreciation/amortization			
Infrastructure	(778,671)	(336,785)	(1,115,456)
Right to use lease - wastewater treatment plant	(628,000)	(221,647)	(849,647)
Landscaping improvements	(201,490)	(100,745)	(302,235)
Water transmission facilities	(49,646)	(24,823)	(74,469)
	<u>(1,657,807)</u>	<u>(684,000)</u>	<u>(2,341,807)</u>
Subtotal depreciable capital assets, net	<u>13,656,464</u>	<u>3,692,041</u>	<u>17,348,505</u>
Capital assets, net	<u>\$ 14,946,200</u>	<u>\$ 4,725,560</u>	<u>\$ 19,671,760</u>

Depreciation/amortization expense for the current fiscal year was \$684,000.

As discussed in Note 3, the District recorded a restatement to capitalize the acquisition of certain capital assets and accumulated depreciation at the beginning of the current fiscal year. In previous years, these costs were expensed. As a result, beginning balances for infrastructure capital assets in the current fiscal year are not consistent with prior year data.

This District has contractual commitments for construction projects as follows:

	Contract Amount	Paid To Date	Remaining Amount*
Improvements to FM 2854 - Phase 2	\$ 182,521	\$ 179,525	\$ 2,996
Fairwater Pond A Slope Reconstruction - Anchor	1,152,974	826,344	326,630
Fairwater Pond A Slope Reconstruction - Keller	2,371,966		2,371,966
	<u>\$ 3,707,461</u>	<u>\$ 1,005,869</u>	<u>\$ 2,701,592</u>

* Includes retainage

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 7 – Bond Anticipation Note

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

On July 2, 2024, the District issued a \$3,500,000 BAN with an interest rate of 5.19%, which is due on July 1, 2025.

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

Beginning balance	\$ -
Amounts borrowed	3,500,000
Ending balance	<u>\$ 3,500,000</u>

Note 8 – Due to Developer

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

The District’s developer has also advanced funds to the District for operating expenses.

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

Due to developer, beginning of year	\$ 12,753,405
Developer funded construction and adjustments	5,437,277
Due to developer, end of year	<u>\$ 18,190,682</u>

Note 9 – Lease Obligations

On August 12, 2019, the District entered into a lease agreement for a temporary wastewater treatment plant. This lease is for a 60-month term, commencing December 1, 2020, unless otherwise terminated. The lease agreement shall automatically be extended for successive 90-day periods after the initial term, unless otherwise terminated. The District has the option to purchase the leased property following an additional lease of twenty-four months beyond the expiration of the original term. The District is responsible for all ordinary expenses related to repairing and maintaining the equipment.

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 9 – Lease Obligations (continued)

The District recognized a lease liability and an intangible right-to-use leased asset in the amount of \$1,108,233, which is measured at the present value remaining lease payments at October 1, 2022. The remaining balance of the liability at September 30, 2024, is \$272,973. Monthly payments for the lease are \$19,850. Total annual payments are \$238,200, which includes principal of \$226,817 and interest of \$11,383.

Annual requirements to amortize long-term lease obligations and related interest are as follows:

Year	Principal	Interest	Total
2025	\$ 233,416	\$ 4,784	\$ 238,200
2026	39,557	143	39,700
	<u>\$ 272,973</u>	<u>\$ 4,927</u>	<u>\$ 277,900</u>
Due within one year	<u>\$ 233,416</u>	<u>\$ 4,784</u>	<u>\$ 238,200</u>

Standard lease terms require payment of the first and last month's lease payment upon execution of the lease. As of September 30, 2024, the District has prepaid \$59,550 for the last month's lease payment and October and November 2024 lease payments.

Note 10 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	<u>\$ 13,595,000</u>
Due within one year	<u>\$ 435,000</u>

The District's bonds payable at September 30, 2024, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2021 Road	\$ 3,755,000	\$ 4,000,000	3.375% - 4.50%	September 1, 2023/2047	March 1, September 1	September 1, 2027
2022 Road	4,555,000	4,660,000	4.00% - 6.50%	September 1, 2024/2047	March 1, September 1	September 1, 2028
2023	5,285,000	5,500,000	4.00% - 6.50%	September 1, 2024/2049	March 1, September 1	September 1, 2029
	<u>\$ 13,595,000</u>					

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 10 – Long-Term Debt (continued)

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

At September 30, 2024, the District had authorized but unissued bonds in the amount of \$83,100,000 for water, sewer and drainage facilities and refunding of such bonds; \$7,200,000 for park and recreational facilities and refunding of such bonds; and \$46,640,000 for road improvements and refunding of such bonds.

The change in the District's long-term debt during the year is as follows:

Bonds payable, beginning of year	\$ 14,020,000
Bonds retired	(425,000)
Bonds payable, end of year	<u>\$ 13,595,000</u>

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 10 – Long-Term Debt (continued)

As of September 30, 2024, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2025	\$ 435,000	\$ 524,768	\$ 959,768
2026	445,000	505,074	950,074
2027	450,000	484,860	934,860
2028	460,000	464,200	924,200
2029	475,000	443,137	918,137
2030	485,000	424,488	909,488
2031	495,000	407,757	902,757
2032	505,000	390,588	895,588
2033	515,000	372,505	887,505
2034	530,000	353,700	883,700
2035	545,000	334,162	879,162
2036	560,000	313,937	873,937
2037	575,000	292,675	867,675
2038	590,000	270,698	860,698
2039	605,000	247,640	852,640
2040	620,000	223,840	843,840
2041	640,000	199,180	839,180
2042	655,000	173,610	828,610
2043	675,000	147,187	822,187
2044	700,000	119,550	819,550
2045	715,000	90,937	805,937
2046	740,000	61,725	801,725
2047	760,000	31,275	791,275
2048	210,000	19,950	229,950
2049	210,000	9,975	219,975
	<u>\$ 13,595,000</u>	<u>\$ 6,907,418</u>	<u>\$ 20,502,418</u>

Note 11 – Property Taxes

On November 5, 2019, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The voters of the District also authorized the District's Board of Directors to levy taxes annually for road maintenance limited to \$0.25 per \$100 of assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

Montgomery County Municipal Utility District No. 166
Notes to Financial Statements
September 30, 2024

Note 11 – Property Taxes (continued)

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

Property taxes are collected based on rates adopted in the year of the levy. The District's 2024 fiscal year was financed through the 2023 tax levy, pursuant to which the District levied property taxes of \$1.35 per \$100 of assessed value, of which \$0.84 was allocated to maintenance and operations, \$0.09 was allocated to water, sewer and drainage debt service, and \$0.42 was allocated to road debt service. The resulting tax levy was \$1,743,410 on the adjusted taxable value of \$129,141,474.

Property taxes receivable, at September 30, 2024, consisted of the following:

Current year taxes receivable	\$ 45,348
Prior years taxes receivable	4,500
	<hr/> 49,848
Penalty and interest receivable	10,512
Property taxes receivable	<hr/> <hr/> \$ 60,360

Note 12 – Wholesale Water Supply Agreement

MSEC Enterprises ("MSEC") supplies water to District residents pursuant to an agreement with the District's developer, which was assigned to the District on November 13, 2019. MSEC owns, constructs, operates and maintains the water supply and water distribution systems that serve residents within the District.

The District is responsible for all costs necessary to design and construct the public facilities to connect to the MSEC water supply and distribution system. The estimated cost of the required facilities is \$992,832, which was paid by the District's developer and will be reimbursed by the District from future bond proceeds. MSEC will own and operate the facilities upon completion of construction. However, the District has recognized an intangible asset equal to the cost of the facilities.

The District is required to pay for wholesale water service based on rates set by MSEC, which consist of a capacity charge and a volume charge. In addition to the wholesale water service rates, the District is responsible for all applicable charges imposed by the San Jacinto River Authority and the Lone Star Groundwater Conservation District for water produced within their jurisdictions.

Note 13 – Strategic Partnership Agreement

On December 10, 2020, the District and the City of Conroe (the “City”) entered into a Strategic Partnership Agreement under which the City may annex the District for limited purposes. The District continues (1) to exercise all powers and functions of a municipal utility district and (2) to provide certain services described in the agreement. There is currently no commercial development in the District. Therefore, no rebate was due or paid.

The City agrees that it will not annex all or part of the District during the initial term of the agreement. The District will be subject to full purpose annexation upon the earlier of the following dates: (1) December 31st of the sixteenth year following the District’s first ad valorem tax bond issuance or (2) December 31, 2040. Following the full purpose annexation, the land included within the boundaries of the District would be deemed to be within the full purpose boundary limits of the City. At such time, all taxable property within the territory of the District would become subject to ad valorem taxation by the City.

If debt of the District remains outstanding on the full purpose annexation conversion date or if the District has not fully reimbursed any developer within the District in accordance with any written reimbursement agreement, then the District shall become a “limited district”. The “limited district” shall be known as Montgomery County Municipal Utility District No. 166 and shall continue for as long as may be necessary to repay all of its outstanding debt. The powers of the “limited district” are restricted to the levy and collection of ad valorem taxes sufficient to meet the District’s outstanding debt service requirements.

The City may extend the existence of the “limited district” for so long as any debt of the “limited district” remains. The District may not be abolished by the City until the District reaches 90% in buildout.

Note 14 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

Montgomery County Municipal Utility District No. 166
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended September 30, 2024

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water service	\$ 375,000	\$ 375,000	\$ 317,815	\$ (57,185)
Sewer service	335,000	335,000	381,458	46,458
Property taxes	1,072,821	1,072,821	1,056,963	(15,858)
Penalties and interest	4,500	4,500	11,871	7,371
Ground water fees	100,000	100,000	191,474	91,474
Tap connection and inspection	168,000	168,000	73,001	(94,999)
Miscellaneous			1,827	1,827
Investment earnings	10,000	10,000	20,952	10,952
Total Revenues	<u>2,065,321</u>	<u>2,065,321</u>	<u>2,055,361</u>	<u>(9,960)</u>
Expenditures				
Current service operations				
Purchased services	750,000	750,000	680,696	69,304
Professional fees	115,000	115,000	218,821	(103,821)
Contracted services	140,000	140,000	238,366	(98,366)
Repairs and maintenance	410,700	475,700	317,257	158,443
Utilities	32,000	32,000	29,103	2,897
Administrative	49,300	49,300	49,528	(228)
Other	4,500	35,000	3,723	31,277
Capital outlay	150,000	150,000		150,000
Debt service				
Lease - principal	226,817	226,817	226,817	
Lease - interest	11,383	11,383	11,383	
Total Expenditures	<u>1,889,700</u>	<u>1,985,200</u>	<u>1,775,694</u>	<u>209,506</u>
Revenues Over Expenditures	175,621	80,121	279,667	199,546
Fund Balance				
Beginning of the year	(7,031)	(7,031)	(7,031)	
End of the year	<u>\$ 168,590</u>	<u>\$ 73,090</u>	<u>\$ 272,636</u>	<u>\$ 199,546</u>

Montgomery County Municipal Utility District No. 166
Notes to Required Supplementary Information
September 30, 2024

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated expenditures.

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Texas Supplementary Information

Montgomery County Municipal Utility District No. 166
TSI-1. Services and Rates
September 30, 2024

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

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

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels		
Water:	\$ 15.00	1,000	N	\$ 4.25	1,001	to	no limit
Wastewater:	\$ 66.80	N/A	Y	N/A	N/A	to	N/A
SJRA Fee*:	\$ 2.67	1,000	N	\$ 2.67	1,001	to	no limit
LSGCD Fee**:	\$ 0.085	1,000	N	\$ 0.085	1,001	to	no limit

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

Total charges per 10,000 gallons usage: Water \$ 80.80 Wastewater \$ 66.80

*The District bills its customers at 105% of the San Jacinto River Authority fee, which is subject to change.

**Lone Star Groundwater Conservation District ("LSGCD") fee

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	486	482	x 1.0	482
1"	3	3	x 2.5	8
1.5"			x 5.0	
2"	8	8	x 8.0	64
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	497	493		554
Total Wastewater	481	477	x 1.0	477

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-1. Services and Rates
September 30, 2024

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

* Gallons purchased into system:	<u>58,128,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>58,128,000</u>	(Gallons billed / Gallons pumped)
		<u>100.00%</u>

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

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

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

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

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

5. Location of District:

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

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

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

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

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

Entirely ☒ Partly ☐ Not at all ☐

ETJs in which the District is located: City of Conroe

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

If Yes, by whom? _____

*Purchased from MSEC Enterprises

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-2 General Fund Expenditures
For the Year Ended September 30, 2024

Purchased services	\$ 680,696
Professional fees	
Legal	90,694
Audit	64,748
Engineering	63,379
	<u>218,821</u>
Contracted services	
Bookkeeping	23,675
Operator	34,047
Garbage collection	97,562
Inspection	83,082
	<u>238,366</u>
Repairs and maintenance	<u>317,257</u>
Utilities	<u>29,103</u>
Administrative	
Directors fees	14,586
Printing and office supplies	19,368
Insurance	5,762
Other	9,812
	<u>49,528</u>
Other	<u>3,723</u>
Debt service	
Lease - principal	226,817
Lease - interest	11,383
	<u>238,200</u>
Total expenditures	<u><u>\$ 1,775,694</u></u>

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-3. Investments
September 30, 2024

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General			
TexSTAR	Variable	N/A	<u>\$ 360,295</u>
Debt Service			
TexSTAR	Variable	N/A	207,825
TexSTAR	Variable	N/A	185,842
			<u>393,667</u>
Capital Projects			
TexSTAR	Variable	N/A	384,340
TexSTAR	Variable	N/A	2,278,723
			<u>2,663,063</u>
Total - All Funds			<u><u>\$ 3,417,025</u></u>

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-4. Taxes Levied and Receivable
September 30, 2024

	Maintenance Taxes	Debt Service Taxes	Road Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 3,868	\$ 2,249	\$ -	\$ 6,117
Adjustments to Prior Year Tax Levy	(607)	(356)		(963)
Adjusted Receivable	3,261	1,893		5,154
2023 Original Tax Levy	943,628	101,103	471,814	1,516,545
Adjustments	141,161	15,124	70,580	226,865
Adjusted Tax Levy	1,084,789	116,227	542,394	1,743,410
Total to be accounted for	1,088,050	118,120	542,394	1,748,564
Tax collections:				
Current year	1,056,572	113,204	528,286	1,698,062
Prior years	428	226		654
Total Collections	1,057,000	113,430	528,286	1,698,716
Taxes Receivable, End of Year	\$ 31,050	\$ 4,690	\$ 14,108	\$ 49,848
Taxes Receivable, By Year				
2023	\$ 28,217	\$ 3,023	\$ 14,108	\$ 45,348
2022	2,833	1,667		4,500
Taxes Receivable, End of Year	\$ 31,050	\$ 4,690	\$ 14,108	\$ 49,848
	2023	2022	2021	2020
Property Valuations:				
Land	\$ 34,868,040	\$ 28,919,390	\$ 9,073,820	\$ 4,611,920
Improvements	101,223,760	36,349,030	8,655,050	28,540
Personal Property	83,811	67,540	10,000	
Exemptions	(7,034,137)	(2,635,628)	(143,539)	(63,500)
Total Property Valuations	\$ 129,141,474	\$ 62,700,332	\$ 17,595,331	\$ 4,576,960
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.84	\$ 0.85	\$ 1.35	\$ 1.35
Debt service tax rates	0.09	0.50		
Road debt service tax rates	0.42			
Total Tax Rates per \$100 Valuation	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.35
Adjusted Tax Levy:	\$ 1,743,410	\$ 846,454	\$ 237,537	\$ 61,789
Percentage of Taxes Collected to Taxes Levied ***	97.40%	99.47%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on November 5, 2019

** Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on November 5, 2019

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

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-5. Long-Term Debt Service Requirements
Series 2021 Road--by Years
September 30, 2024

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2025	\$ 110,000	\$ 96,375	\$ 206,375
2026	115,000	94,505	209,505
2027	115,000	92,435	207,435
2028	120,000	90,250	210,250
2029	125,000	87,850	212,850
2030	130,000	85,350	215,350
2031	135,000	82,620	217,620
2032	140,000	79,650	219,650
2033	145,000	76,430	221,430
2034	150,000	72,950	222,950
2035	155,000	69,350	224,350
2036	160,000	65,475	225,475
2037	165,000	61,475	226,475
2038	170,000	57,185	227,185
2039	175,000	52,765	227,765
2040	180,000	48,040	228,040
2041	190,000	43,180	233,180
2042	195,000	37,860	232,860
2043	200,000	32,400	232,400
2044	210,000	26,400	236,400
2045	215,000	20,100	235,100
2046	225,000	13,650	238,650
2047	230,000	6,900	236,900
	<u>\$ 3,755,000</u>	<u>\$ 1,393,195</u>	<u>\$ 5,148,195</u>

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-5. Long-Term Debt Service Requirements
Series 2022 Road--by Years
September 30, 2024

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2025	\$ 110,000	\$ 194,531	\$ 304,531
2026	115,000	190,681	305,681
2027	120,000	186,512	306,512
2028	125,000	182,013	307,013
2029	135,000	177,325	312,325
2030	140,000	171,925	311,925
2031	145,000	166,325	311,325
2032	155,000	160,525	315,525
2033	160,000	154,325	314,325
2034	170,000	147,925	317,925
2035	180,000	140,912	320,912
2036	190,000	133,487	323,487
2037	200,000	125,413	325,413
2038	210,000	116,913	326,913
2039	220,000	107,725	327,725
2040	230,000	98,100	328,100
2041	240,000	87,750	327,750
2042	250,000	76,950	326,950
2043	265,000	65,700	330,700
2044	280,000	53,775	333,775
2045	290,000	41,175	331,175
2046	305,000	28,125	333,125
2047	320,000	14,400	334,400
	<u>\$ 4,555,000</u>	<u>\$ 2,822,512</u>	<u>\$ 7,377,512</u>

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-5. Long-Term Debt Service Requirements
Series 2023--by Years
September 30, 2024

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2025	\$ 215,000	\$ 261,813	\$ 476,813
2026	215,000	247,838	462,838
2027	215,000	233,862	448,862
2028	215,000	219,888	434,888
2029	215,000	205,913	420,913
2030	215,000	191,937	406,937
2031	215,000	177,962	392,962
2032	210,000	167,213	377,213
2033	210,000	158,812	368,812
2034	210,000	150,413	360,413
2035	210,000	141,750	351,750
2036	210,000	132,825	342,825
2037	210,000	123,900	333,900
2038	210,000	114,975	324,975
2039	210,000	105,787	315,787
2040	210,000	96,600	306,600
2041	210,000	87,150	297,150
2042	210,000	77,700	287,700
2043	210,000	68,250	278,250
2044	210,000	58,800	268,800
2045	210,000	49,087	259,087
2046	210,000	39,375	249,375
2047	210,000	29,662	239,662
2048	210,000	19,950	229,950
2049	210,000	9,975	219,975
	<u>\$ 5,285,000</u>	<u>\$ 3,171,437</u>	<u>\$ 8,456,437</u>

See accompanying auditors' report.

Montgomery County Municipal Utility District No. 166
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
September 30, 2024

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2025	\$ 435,000	\$ 524,768	\$ 959,768
2026	445,000	505,074	950,074
2027	450,000	484,860	934,860
2028	460,000	464,200	924,200
2029	475,000	443,137	918,137
2030	485,000	424,488	909,488
2031	495,000	407,757	902,757
2032	505,000	390,588	895,588
2033	515,000	372,505	887,505
2034	530,000	353,700	883,700
2035	545,000	334,162	879,162
2036	560,000	313,937	873,937
2037	575,000	292,675	867,675
2038	590,000	270,698	860,698
2039	605,000	247,640	852,640
2040	620,000	223,840	843,840
2041	640,000	199,180	839,180
2042	655,000	173,610	828,610
2043	675,000	147,187	822,187
2044	700,000	119,550	819,550
2045	715,000	90,937	805,937
2046	740,000	61,725	801,725
2047	760,000	31,275	791,275
2048	210,000	19,950	229,950
2049	210,000	9,975	219,975
	<u>\$ 13,595,000</u>	<u>\$ 6,907,418</u>	<u>\$ 20,502,418</u>

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-6. Change in Long-Term Bonded Debt
September 30, 2024

	Bond Issue			
	Series 2021	Series 2022	Series 2023	Totals
	Road	Road		
Interest rate	1.40% - 3.00%	3.375% - 4.50%	4.00% - 6.50%	
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	
Maturity dates	9/1/23 - 9/1/47	9/1/24 - 9/1/47	9/1/24 - 9/1/49	
Beginning bonds outstanding	\$ 3,860,000	\$ 4,660,000	\$ 5,500,000	\$ 14,020,000
Bonds retired	(105,000)	(105,000)	(215,000)	(425,000)
Ending bonds outstanding	<u>\$ 3,755,000</u>	<u>\$ 4,555,000</u>	<u>\$ 5,285,000</u>	<u>\$ 13,595,000</u>
Interest paid during fiscal year	<u>\$ 98,055</u>	<u>\$ 198,075</u>	<u>\$ 255,104</u>	<u>\$ 551,234</u>
Paying agent's name and city				
All Series	The Bank of New York Mellon Trust Company, N.A., Dallas, TX			
Bond Authority:	Water, Sewer and	Recreational	Road Facilities	
	Drainage Bonds	Facilities Bonds	Bonds and	
	and Refunding	and Refunding	Refunding	
Amount Authorized by Voters	\$ 88,600,000	\$ 7,200,000	\$ 55,300,000	
Amount Issued	(5,500,000)		(8,660,000)	
Remaining To Be Issued	<u>\$ 83,100,000</u>	<u>\$ 7,200,000</u>	<u>\$ 46,640,000</u>	

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

Debt Service Fund cash and investment balances as of September 30, 2024: \$ 450,648

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 820,097

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 166
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2024	2023	2022	2021	2020
Revenues					
Water service	\$ 317,815	\$ 295,482	\$ 198,142	\$ 52,673	\$ 19,382
Sewer service	381,458	340,426	232,196	63,809	11,229
Property taxes	1,056,963	529,822	237,766	61,404	39,271
Penalties and interest	11,871	10,359	6,958	1,431	4,445
Ground water fees	191,474	181,575	103,609	29,598	11,507
Tap connection and inspection	73,001	77,256	493,638	194,260	82,045
Miscellaneous	1,827	2,403	1,075	2,660	3,045
Investment earnings	20,952	12,071	741	47	45
Total Revenues	<u>2,055,361</u>	<u>1,449,394</u>	<u>1,274,125</u>	<u>405,882</u>	<u>170,969</u>
Expenditures					
Current service operations					
Purchased services	680,696	623,909	412,953	146,339	60,858
Professional fees	218,821	104,294	106,637	117,593	100,094
Contracted services	238,366	216,383	372,149	130,687	119,403
Repairs and maintenance	317,257	308,311	335,885	134,527	35,062
Utilities	29,103	28,680			
Administrative	49,528	32,496	28,190	35,278	13,912
Other	3,723	7,618	1,877	665	2,303
Debt service					
Lease - principal	226,817	220,409	214,181	173,853	
Lease - interest	11,383	17,791	24,019	24,647	
Total Expenditures	<u>1,775,694</u>	<u>1,559,891</u>	<u>1,495,891</u>	<u>763,589</u>	<u>331,632</u>
Revenues Over (Under) Expenditures	<u>\$ 279,667</u>	<u>\$ (110,497)</u>	<u>\$ (221,766)</u>	<u>\$ (357,707)</u>	<u>\$ (160,663)</u>
Total Active Retail Water Connections	<u>493</u>	<u>480</u>	<u>454</u>	<u>153</u>	<u>48</u>
Total Active Retail Wastewater Connections	<u>477</u>	<u>468</u>	<u>449</u>	<u>149</u>	<u>47</u>

*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues				
2024	2023	2022	2021	2020
15%	16%	16%	10%	10%
19%	18%	18%	7%	7%
51%	19%	19%	23%	23%
1%	1%	1%	3%	3%
9%	8%	8%	7%	7%
3%	38%	38%	48%	48%
*	*	*	2%	2%
1%	*	*	*	*
100%	100%	100%	100%	100%
33%	43%	32%	36%	36%
11%	7%	8%	29%	59%
12%	15%	29%	32%	70%
15%	21%	26%	33%	21%
1%	2%			
2%	2%	2%	9%	8%
*	1%	*	*	1%
11%	15%	17%	43%	
1%	1%	2%	6%	
86%	107%	116%	188%	195%
14%	(7%)	(16%)	(88%)	(95%)

Montgomery County Municipal Utility District No. 166

**TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Four Fiscal Years**

	Amounts			
	2024	2023	2022	2021
Revenues				
Property taxes	\$ 639,731	\$ 311,634	\$ -	\$ -
Penalties and interest	13,298	9,021		
Miscellaneous	130	70		
Investment earnings	48,069	16,041	784	1
Total Revenues	701,228	336,766	784	1
Expenditures				
Tax collection services	31,434	7,369		
Other			525	
Debt service				
Principal	425,000	140,000		
Interest and fees	553,559	288,586	94,931	
Total Expenditures	1,009,993	435,955	95,456	
Revenues Over/(Under) Expenditures	\$ (308,765)	\$ (99,189)	\$ (94,672)	\$ 1

*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues			
2024	2023	2022	2021
91%	92%		
2%	3%		
*	*		
7%	5%	100%	100%
100%	100%	100%	100%
4%	2%		
		67%	
61%	42%		
79%	86%	12109%	
144%	130%	12176%	0%
(44%)	(30%)	(12,076%)	100%

Montgomery County Municipal Utility District No. 166
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended September 30, 2024

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
District Business Telephone Number: (713) 860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): May 22, 2024
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.060)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Ronald D. White	01/23 - 05/26	\$ 4,862	\$ 3,120	President
Stephanie Trevino	05/22 - 05/26	2,431	400	Vice President
Marcus Campbell	05/24 - 05/28	3,978	1,219	Secretary
Camaaron Jackson	05/24 - 05/28	3,315	1,718	Assistant Secretary
Vacant				Assistant Vice President
Consultants				
Allen Boone Humphries Robinson, LLP	2019	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 99,796		
<i>Bond counsel</i>		35,000		
Municipal District Services, LLC	2019	310,562		Operator
Myrtle Cruz, Inc.	2019	27,580		Bookkeeper
Assessments of the Southwest, Inc.	2019	6,892		Tax Collector
Montgomery Central Appraisal District	Legislation	17,367		Property Valuation
Perdue Brandon Fielder Collins & Mott, LLP	2019	3,628		Delinquent Tax Attorney
LJA Engineering, Inc.	2019	115,456		Engineer
McGrath & Co., PLLC	2019	14,000		Auditor
Masterson Advisors, LLC	2019	35,000		Financial Advisor

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

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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