

**OFFICIAL STATEMENT DATED OCTOBER 28, 2025**

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS (I) IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND (II) IS NOT AN ITEM OF TAX PREFERENCE FOR PURPOSES OF THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" HEREIN, INCLUDING INFORMATION REGARDING POTENTIAL ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

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

**NEW ISSUE-Book-Entry Only**

Insured Rating (BAM): S&P "AA" (stable outlook)  
 Underlying Rating: Moody's "Baa2"  
 See "MUNICIPAL BOND RATING" and  
 "MUNICIPAL BOND INSURANCE" herein.

**\$15,470,000**  
**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 138**  
*(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. 138 (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 INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

**Dated Date: December 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 initial date of delivery (expected to be on or about December 2, 2025) (the "Date of Delivery"), and is payable each March 1 and September 1, commencing March 1, 2026, 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 ("BAM" or the "Insurer"). See "MUNICIPAL BOND INSURANCE" herein.

**MATURITY SCHEDULE**

Due (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (b)	CUSIP Number (c)	Due (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (b)	CUSIP Number (c)
2027	\$ 355,000	6.500%	3.07%	61371E GZ9	2036	\$ 545,000 (a)	4.000%	3.85%	61371E HJ4
2028	370,000	6.500	3.06	61371E HA3	2037	570,000 (a)	4.000	4.00	61371E HK1
2029	390,000	6.500	3.09	61371E HB1	2038	595,000 (a)	4.000	4.10	61371E HL9
2030	410,000	6.500	3.10	61371E HC9	2039	625,000 (a)	4.000	4.20	61371E HM7
2031	430,000	6.500	3.20	61371E HD7	2040	655,000 (a)	4.125	4.30	61371E HN5
2032	450,000	6.500	3.30	61371E HE5	***	***	***	***	***
2033	470,000 (a)	5.000	3.35	61371E HF2	2049	1,005,000 (a)	4.125	4.81	61371E HX3
2034	495,000 (a)	5.000	3.45	61371E HG0	2050	1,055,000 (a)	4.125	4.83	61371E HY1
2035	515,000 (a)	4.000	3.70	61371E HH8					

\$1,410,000 Term Bonds due March 1, 2042 (a), 61371E HQ8 (c), 4.125% Interest Rate, 4.53% Yield (b)  
 \$1,550,000 Term Bonds due March 1, 2044 (a), 61371E HS4 (c), 4.125% Interest Rate, 4.63% Yield (b)  
 \$1,700,000 Term Bonds due March 1, 2046 (a), 61371E HU9 (c), 4.125% Interest Rate, 4.73% Yield (b)  
 \$1,875,000 Term Bonds due March 1, 2048 (a), 61371E HW5 (c), 4.125% Interest Rate, 4.78% Yield (b)

- (a) Bonds maturing on or after March 1, 2033, 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, 2032, 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. The Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (b) Initial reoffering 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.
- (c) 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.

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 December 2, 2025.

## TABLE OF CONTENTS

<b>MATURITY SCHEDULE</b> .....	<b>1</b>	<b>TAX DATA</b> .....	<b>31</b>
<b>USE OF INFORMATION IN OFFICIAL STATEMENT</b> .....	<b>3</b>	Debt Service Tax .....	31
<b>SALE AND DISTRIBUTION OF THE BONDS</b> .....	<b>4</b>	Maintenance and Operations Tax .....	31
Award of the Bonds .....	4	Historical Tax Rate Distribution .....	31
Prices and Marketability .....	4	Tax Exemptions .....	31
Securities Laws .....	4	Additional Penalties .....	31
<b>OFFICIAL STATEMENT SUMMARY</b> .....	<b>5</b>	Historical Tax Collections .....	31
<b>SUMMARY OF SELECTED FINANCIAL</b>		Tax Roll Information .....	32
<b>INFORMATION</b> .....	<b>10</b>	Principal Taxpayers .....	32
<b>OFFICIAL STATEMENT</b> .....	<b>11</b>	Tax Adequacy for Debt Service .....	33
<b>THE BONDS</b> .....	<b>11</b>	<b>TAXING PROCEDURES</b> .....	<b>33</b>
Description .....	11	Authority to Levy Taxes .....	33
Method of Payment of Principal and Interest .....	11	Property Tax Code and County-Wide Appraisal District .....	33
Source of Payment .....	11	Property Subject to Taxation by the District .....	33
Funds .....	12	Tax Abatement .....	34
No Arbitrage .....	12	Valuation of Property for Taxation .....	34
Redemption Provisions .....	12	District and Taxpayer Remedies .....	35
Authority for Issuance .....	13	Levy and Collection of Taxes .....	35
Registration and Transfer .....	13	Tax Payment Installments After Disaster .....	36
Lost, Stolen or Destroyed Bonds .....	14	Rollback of Operation and Maintenance Tax Rate .....	36
Replacement of Paying Agent/Registrar .....	14	District’s Rights in the Event of Tax Delinquencies .....	37
Issuance of Additional Debt .....	14	<b>INVESTMENT CONSIDERATIONS</b> .....	<b>37</b>
Dissolution by the City of Conroe .....	14	General .....	37
Consolidation .....	15	Undeveloped Acreage, Vacant Land and Vacant Lots .....	37
Remedies in Event of Default .....	15	Developers’ Obligation to the District .....	37
Legal Investment and Eligibility to Secure Public Funds		Increase in Costs of Building Materials .....	37
in Texas .....	15	Economic Factors and Interest Rates .....	38
Defeasance .....	16	Credit Markets and Liquidity in the Financial Markets .....	38
<b>BOOK-ENTRY-ONLY SYSTEM</b> .....	<b>16</b>	Competition .....	38
<b>UTILITY AND ROAD AGREEMENT BETWEEN THE</b>		Possible Impact on District Tax Rates .....	38
<b>DISTRICT AND THE CITY OF CONROE</b> .....	<b>17</b>	Future Debt .....	39
<b>USE AND DISTRIBUTION OF BOND PROCEEDS</b> .....	<b>19</b>	Potential Effects of Oil Price Fluctuations on the Houston	
<b>THE DISTRICT</b> .....	<b>20</b>	Area .....	39
General .....	20	Extreme Weather Events .....	39
Description and Location .....	20	Specific Flood Type Risks .....	40
Land Use .....	21	Tax Collections Limitations and Foreclosure Remedies .....	40
Status of Development .....	22	Registered Owners’ Remedies and Bankruptcy Limitations .....	40
Homebuilding .....	22	Environmental Regulation .....	41
<b>THE DEVELOPERS</b> .....	<b>22</b>	Atlas 14 .....	42
General .....	22	Marketability of the Bonds .....	43
Peoples Road – Houston, L.P. .....	22	Changes in Tax Legislation .....	43
Meritage Homes of Texas LLC .....	22	Continuing Compliance with Certain Covenants .....	43
Clay Road 628 Development, L.P. .....	22	Risk Factors Related to the Purchase of Municipal Bond	
Airport Road Conroe, LP .....	23	Insurance .....	43
Trez Capital Funding II, LLC .....	23	<b>LEGAL MATTERS</b> .....	<b>43</b>
Beazer Homes Texas, LP .....	23	Legal Proceedings .....	43
Houston Pine Lake Residential, LLC .....	23	No Material Adverse Change .....	44
Obligations of the Developers .....	23	No-Litigation Certificate .....	44
<b>MANAGEMENT OF THE DISTRICT</b> .....	<b>23</b>	<b>TAX MATTERS</b> .....	<b>44</b>
Board of Directors .....	23	Tax Exemption .....	44
District Consultants .....	23	Not Qualified Tax-Exempt Obligations .....	45
<b>THE SYSTEM</b> .....	<b>24</b>	Additional Federal Income Tax Considerations .....	45
Regulation .....	24	<b>MUNICIPAL BOND RATING</b> .....	<b>46</b>
Water Supply and Wastewater Treatment .....	24	<b>MUNICIPAL BOND INSURANCE</b> .....	<b>46</b>
Water and Wastewater Capacity for Pine Lake Cove .....	25	Bond Insurance Policy .....	46
Surface Water Conversion .....	25	Build America Mutual Assurance Company .....	46
100-Year Flood Plain .....	25	<b>PREPARATION OF OFFICIAL STATEMENT</b> .....	<b>48</b>
Atlas 14 .....	25	Sources and Compilation of Information .....	48
<b>ROAD SYSTEM</b> .....	<b>26</b>	Financial Advisor .....	48
<b>SELECTED FINANCIAL INFORMATION</b> .....	<b>26</b>	Consultants .....	48
Investments of the District .....	26	Updating the Official Statement .....	48
Short-Term Debt .....	27	Certification of Official Statement .....	49
Debt Service Requirements .....	27	<b>CONTINUING DISCLOSURE OF INFORMATION</b> .....	<b>49</b>
Outstanding Debt .....	28	Annual Reports .....	49
Estimated Overlapping Debt .....	28	Event Notices .....	49
Overlapping Taxes .....	29	Availability of Information from the MSRB .....	50
General Operating Fund .....	30	Compliance With Prior Undertakings .....	50
		<b>MISCELLANEOUS</b> .....	<b>50</b>
		<b>AERIAL LOCATION MAP</b>	
		<b>PHOTOGRAPHS OF THE DISTRICT</b>	
		<b>APPENDIX A</b> —Financial Statement of the District for the fiscal	
		year ended April 30, 2025	
		<b>APPENDIX B</b> —Specimen Municipal Bond Insurance Policy	

## 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" or the "Insurer") 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 97.0032% of the par value thereof which resulted in a net effective interest rate of 4.431929%, 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

- Description...* The District is a political subdivision of the State of Texas, created by the 83rd Texas Legislature (Senate Bill No. 623) effective June 14, 2013 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 8422 of the Texas Special District Local Laws Code and Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution. The District currently contains approximately 875 acres of land. See “THE DISTRICT.”
- Location...* The District consists of six non-contiguous tracts, all of which are wholly within the corporate limits of the City of Conroe (the “City”) and located on average approximately 40 miles north of the City of Houston’s downtown central business district. The six tracts comprising the District include (1) Stillwater (approximately 188 acres), located approximately one-half mile southwest of the intersection of Farm-to-Market Road 1488 and Interstate Highway 45 and bordered on the north by Guinn Road, Schoettle Road and Johnson Road; (2) Heritage Reserve (approximately 25 acres) located approximately three miles west of Interstate Highway 45 and one-half mile south of the intersection of League Line Road and Longmire Road; (3) Montgomery Oaks (approximately 126 acres) and Madeley Creek Preserve (approximately 69 acres) located approximately one mile west of the intersection of Interstate Highway 45 and League Line Road and along the south right-of-way of League Line Road; (4) Pine Lake Cove (approximately 314 acres) located approximately ten miles west of the intersection of Interstate Highway 45 and State Highway 105 and along the southern right-of-way of State Highway 105; (5) Venetian Pines (approximately 45 acres) located approximately two miles east of the intersection of Interstate Highway 45 and State Highway 105 and approximately one-half mile north of the intersection of State Highway 105 and Porter Road and along the eastern right-of-way of Airport Road; and (6) an undeveloped tract (approximately 108 acres) (the “Undeveloped Tract”) located approximately one-half mile northwest of the intersection of State Highway 105 and North Loop 336 East and bordered on the west by North Loop 336 East. Stillwater, Venetian Pines and the Undeveloped Tract are located within the boundaries of Conroe Independent School District, Pine Lake Cove is located within the boundaries of Montgomery Independent School District, and Heritage Reserve, Montgomery Oaks and Madeley Creek Preserve are located within the boundaries of Willis Independent School District. See “THE DISTRICT—Description and Location” and “AERIAL LOCATION MAP.”
- The Developers...* The primary developer of Stillwater is Peoples Road – Houston, L.P., a Delaware limited partnership (“Peoples Road”), the general partner of which is HHPXX GP, LLC, a Delaware limited liability company. Peoples Road is a single purpose entity formed for the sole purpose of developing approximately 111 acres within the District as Stillwater, Sections One through Five and selling homes within Stillwater. Peoples Road has completed development of the land that it owned and does not own any undeveloped but developable land in the District.
- Meritage Homes of Texas LLC, an Arizona limited liability company (“Meritage”), has developed approximately 32 acres within the District as Stillwater, Sections Six and Seven (156 single-family residential lots), approximately 91 acres as Montgomery Oaks, Sections One through Four (478 single-family residential lots), and approximately 136 acres (667 single-family residential lots) as Pine Lake Cove, Sections One through Six. Meritage is the sole builder in Stillwater, Sections Six and Seven, Montgomery Oaks, Sections One through Four, and Pine Lake Cove, Sections One through Six and continues to own approximately 111 acres of undeveloped but developable land in the District. Meritage is a wholly-owned subsidiary of Meritage Homes Corporation, a Maryland corporation whose common stock is listed on the New York Stock Exchange under the ticker symbol MTH.
- Clay Road 628 Development, L.P., a Texas limited partnership (“Clay Road 628”) originally owned approximately 281 acres of land in the District in Pine Lake Cove and currently owns approximately 56 acres of undeveloped but developable land in the District. KPS Land Investments, LP, a related entity to Clay Road 628, owns approximately 33 acres of undeveloped but developable land in the District for future development. See “UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE” and “THE SYSTEM.”

The developer of approximately 45 acres of land in the District (of which 33 acres were developable) developed as Venetian Pines is Airport Road Conroe, LP, a Texas limited liability company (“Airport Road Conroe”). Airport Road Conroe has completed development of Venetian Pines, Section One and Two (200 single-family residential lots on approximately 33 acres) and does not own any land for future development.

Trez Capital Funding II, LLC, a Delaware limited liability company (“Trez Capital”) has developed approximately 18 acres of land consisting of 66 single-family residential lots within Heritage Reserve. Trez Capital has completed development of the land it owned in the District and does not own any land for future development.

Beazer Homes Texas, LP, a Delaware limited partnership (“Beazer Homes”) has developed approximately 26 acres as Madeley Creek Preserve, Section One and Two (104 single-family residential lots). Beazer Homes continues to own approximately 40 acres of undeveloped but developable land in the District.

Houston Pine Lake Residential, LLC, a Delaware limited liability company (“Houston Pine Lake”), previously acquired approximately 13 acres of land from Clay Road 628. Houston Pine Lake has constructed the Terrace at Pine Lake Cove, a 241-unit multi-family development, on such acreage.

Peoples Road, Meritage, Clay Road 628, Airport Road Conroe, and Beazer Homes are collectively referred to herein as the “Developers.” See “THE DEVELOPERS” and “TAX DATA—Principal Taxpayers.”

*Status of Development...*

Single-family residential development in the District consists of Stillwater (470 single-family residential lots on approximately 143 acres), Montgomery Oaks (478 single-family residential lots on approximately 91 acres), Venetian Pines (200 single-family residential lots on approximately 33 acres), Heritage Reserve (66 single-family residential lots on approximately 18 acres), Pine Lake Cove (667 single-family residential lots on approximately 136 acres) and Madeley Creek Preserve (104 single-family residential lots on approximately 26 acres). As of October 20, 2025, 1,732 homes were completed (1,593 occupied, 134 unoccupied and 5 models), 35 homes were under construction and 218 vacant developed lots were available for home construction.

The Terrace at Pine Lake Cove, a 241-unit multi-family development, has been constructed on approximately 13 acres in the District. According to the apartment community’s management, The Terrace at Pine Lake Cove is approximately 80% occupied as of October 15, 2025. See “THE DEVELOPERS—Houston Pine Lake Residential, LLC.”

In addition, there are approximately 240 acres of developable but undeveloped land in the District and approximately 175 undevelopable acres consisting of rights-of-way, detention ponds, utility sites, lake amenities, easements, parks, recreational and open space, nature areas, and trails. See “THE DISTRICT—Land Use” and “—Status of Development.”

*Homebuilding...*

Meritage is currently constructing homes in Montgomery Oaks and Pine Lake Cove at average sales prices of \$320,000 and \$327,000, respectively; Chesmar Homes, Empire Communities and D.R. Horton are currently constructing homes in Venetian Pines at an average sales price of \$292,000; and Beazer Homes is currently constructing homes in Madeley Creek Preserve at an average sales price of \$357,000. See “THE DISTRICT—Homebuilding.”

*Water and Wastewater...*

Pursuant to a Utility and Road Agreement between the District and the City, as amended, water supply capacity and wastewater treatment capacity for approximately 605 acres of land within the District consisting of the Stillwater Tract, Montgomery Oaks Tract, Venetian Pines Tract, Heritage Reserve Tract, Madeley Creek Preserve Tract and the Undeveloped Tract is provided or will be provided by the City and all revenues from the collection of charges for water and sewer services are paid directly to the City and the City provides or will provide retail water and sewer services to the residents in the Stillwater Tract, Montgomery Oaks Tract, Venetian Pines Tract, Heritage Reserve Tract, Madeley Creek Preserve Tract and the Undeveloped Tract.

For residents within Pine Lake Cove, the District secured and is funding interim water capacity for Pine Lake Cove through construction of an interconnection with Stanley Lake Municipal Utility District (“Stanley Lake MUD”) that is capable of serving up to 1,000 equivalent single-family connections until the earlier of (i) the District’s completion of permanent potable water production or (ii) December 31, 2026. Permanent water supply and wastewater treatment capacity to serve Pine Lake Cove will ultimately be provided by a water supply facility and wastewater treatment plant (the “Central Facilities”) constructed by the District, conveyed to the City for ownership and operation, and paid for from bonds payable from City tax increment on the Pine Lake Cove tracts (“Central Facilities Bonds”). A permanent wastewater treatment plant and a permanent water plant have been constructed by the District. The permanent wastewater treatment plant, currently being operated by the District, provides wastewater treatment capacity to the residents of Pine Lake Cove, and the District expects to convey the wastewater treatment plant to the City upon the completion of the permanent water plant. In addition, two on-site water wells and a remote water well to serve Pine Lake Cove are currently under construction with completion expected in the fourth quarter of 2026, which will provide a potable water supply to residents of Pine Lake Cove. Upon completion, the two on-site water wells, the remote water well and the permanent water plant are intended to be conveyed to the City. The District expects to convey the on-site water wells, the remote water well and the permanent water plant, along with the permanent wastewater treatment plant, to the City in 2026. Should such conveyance not occur prior to December 31, 2026, the District will be required to seek an extension of water supply from Stanley Lake MUD or another source. See “UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE” for a more complete description of the facilities and agreements related to Pine Lake Cove and “THE SYSTEM.”

*Payment Record...*

The District has previously issued \$35,590,000 principal amount of unlimited tax bonds for water, wastewater and drainage facilities (the “Outstanding Water, Wastewater and Drainage Bonds”) in three series and \$26,045,000 principal amount of unlimited tax bonds for roads and related improvements (the “Outstanding Road Bonds”) in four series, \$57,990,000 of which collectively remains outstanding (the “Outstanding Bonds”) as of the date hereof. The Bonds are the District’s fourth issuance of unlimited tax bonds for water, sewer and drainage facilities. The District has never defaulted on its debt obligations. See “SELECTED FINANCIAL INFORMATION—Outstanding Debt.”

*Future and Short-Term Debt...*

The District has authorized preparation of a bond application to be submitted to the Texas Commission on Environmental Quality (the “TCEQ”) requesting approval to sell approximately \$6,185,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities (the “Series 2026 Bonds”). The District expects to pay debt service on said bonds from the Contract Payments (as defined herein) from the City. The District expects TCEQ approval and issuance of such bonds in the second quarter of 2026. See “THE BONDS—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”

In connection, with such bond application to the TCEQ, the District anticipates selling a bond anticipation note (the “2025 BAN”) in the approximate principal amount of \$4,025,000 in the fourth quarter of 2025. The District will use a portion of the proceeds from the Series 2026 Bonds expected to be issued in the second quarter of 2026 to redeem the 2025 BAN prior to maturity. See “SELECTED FINANCIAL INFORMATION—Short-Term Debt.”

## THE BONDS

*Description...*

The \$15,470,000 Unlimited Tax Bonds, Series 2025 (the “Bonds”) are being issued as fully-registered bonds 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 on March 1 in each of the years 2027 through 2040, both inclusive, and 2049 and 2050, and mature as term bonds on March 1 in each of the years 2042, 2044, 2046 and 2048 (the “Term Bonds”) in the principal amounts and pay interest at the rates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from the Date of Delivery, and is payable March 1, 2026, and each September 1 and March 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”

<i>Book-Entry-Only System...</i>	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.”
<i>Redemption...</i>	Bonds maturing on or after March 1, 2033, 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, 2032, 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. The Term Bonds are subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to pay for the items shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS,” including to pay interest on funds advanced by the Developers, to pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Authority for Issuance...</i>	The Bonds are the fourth series of bonds issued out of an aggregate of \$171,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of constructing and/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 TCEQ, to the terms and conditions of the Bond Resolution adopted by the Board of Directors of the District, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 8422 of the Texas Special District Local Laws Code, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas and an election held within the District on May 10, 2014. See “THE BONDS—Authority for Issuance,” “—Issuance of Additional Debt,” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the 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.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) to the Bonds with the understanding that upon issuance and delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM”). Moody’s Investors Service (“Moody’s”) has assigned an underlying rating of “Baa2” to the Bonds. An explanation of the ratings may be obtained from S&P and Moody’s. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Not Qualified Tax-Exempt Obligations...</i>	The Bonds have not been designated as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986.
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Houston, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

## **INVESTMENT CONSIDERATIONS**

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 "INVESTMENT CONSIDERATIONS."

**SUMMARY OF SELECTED FINANCIAL INFORMATION**

2025 Taxable Assessed Valuation.....	\$650,636,683	(a)
Estimated Taxable Assessed Valuation as of July 15, 2025.....	\$722,782,700	(b)
Gross Direct Debt Outstanding (the Outstanding Bonds and the Bonds).....	\$ 73,460,000	(c)
Estimated Overlapping Debt.....	46,778,707	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	<u>\$120,238,707</u>	
Ratios of Gross Direct Debt to:		
2025 Taxable Assessed Valuation .....	11.29%	
Estimated Taxable Assessed Valuation as of July 15, 2025 .....	10.16%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2025 Taxable Assessed Valuation .....	18.48%	
Estimated Taxable Assessed Valuation as of July 15, 2025 .....	16.64%	
Funds Available for Debt Service:		
Road Debt Service Fund as of September 23, 2025.....	\$ 880,267	
Water, Wastewater and Drainage Debt Service Fund as of September 23, 2025 .....	<u>1,418,247</u>	
Total Funds Available for Debt Service as of September 23, 2025 .....	<u>\$2,298,514</u>	
Operating Funds Available as of September 23, 2025 .....	\$1,340,236	(e)
Road Capital Projects Funds Available as of September 23, 2025.....	\$ 343	
Water, Wastewater and Drainage Capital Projects Funds Available as of September 23, 2025 .....	\$ 338,240	(f)
2025 Debt Service Tax Rate.....	\$0.74	
2025 Maintenance and Operations Tax Rate.....	0.14	
2025 Total Tax Rate.....	\$0.88	
Average Annual Debt Service Requirement (2026-2050).....	\$4,642,463	(g)
Maximum Annual Debt Service Requirement (2042).....	\$5,255,231	(g)
Tax Rates Required to Pay Average Annual Debt Service (2026-2050) at a 95% Collection Rate		
Based upon 2025 Taxable Assessed Valuation.....	\$0.76	(h)
Based upon Estimated Taxable Assessed Valuation as of July 15, 2025.....	\$0.68	(h)
Tax Rates Required to Pay Maximum Annual Debt Service (2042) at a 95% Collection Rate		
Based upon 2025 Taxable Assessed Valuation.....	\$0.86	(h)
Based upon Estimated Taxable Assessed Valuation as of July 15, 2025.....	\$0.77	(h)
Status of Development as of October 20, 2025 (i):		
Total Developed Lots.....	1,985	
Homes Completed (1,593 Occupied, 134 Unoccupied, and 5 Models) .....	1,732	
Homes Under Construction or in the Name of a Homebuilder .....	35	(i)
Lots Available for Home Construction .....	218	(i)
Multi-Family Units .....	241	(i)
Estimated 2025 Population.....	6,057	(j)

- (a) The Montgomery Central Appraisal District (the "Appraisal District") has certified \$597,202,364 of taxable value and an additional \$53,434,319 of taxable value remains uncertified. The uncertified value represents the opinion of value by the Appraisal District; however, such value is subject to change and downward revision prior to certification. The 2025 Taxable Assessed Valuation shown throughout this OFFICIAL STATEMENT is the certified value plus the uncertified value. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amount reflects an estimate of the taxable assessed valuation within the District on July 15, 2025. No tax will be levied on such amount until it is certified. See "TAXING PROCEDURES."
- (c) After issuance of the Bonds. See "SELECTED FINANCIAL INFORMATION—Outstanding Debt."
- (d) See "SELECTED FINANCIAL INFORMATION—Estimated Overlapping Debt."
- (e) Excludes approximately \$217,123 of Pine Lake Cove operating funds, which cannot be used to pay expenses in any parts of the District outside of the Pine Lake Cove System (defined herein). See "UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE—Water and Wastewater Treatment Facilities to Serve Pine Lake Cove" and "THE SYSTEM—Water Supply and Wastewater Treatment."
- (f) As approved by the TCEQ, the District will contribute \$330,000 of surplus Water, Wastewater and Drainage Capital Projects Funds toward the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (g) See "SELECTED FINANCIAL INFORMATION—Debt Service Requirements."
- (h) See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."
- (i) See "THE DISTRICT—Land Use" and "—Status of Development."
- (j) Based upon 3.5 persons per occupied single-family residence and 2.0 persons per occupied multi-family unit.

**OFFICIAL STATEMENT**

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 138**  
*(A political subdivision of the State of Texas located within Montgomery County)*

**\$15,470,000**

**UNLIMITED TAX BONDS  
SERIES 2025**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 138 (the “District”) of its \$15,470,000 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, Chapter 8422, Texas Special District Local Laws Code, 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.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Peoples Road – Houston, L.P., a Delaware limited partnership (“Peoples Road”), Meritage Homes of Texas LLC, an Arizona limited liability company (“Meritage”), Clay Road 628 Development, L.P., a Texas limited partnership (“Clay Road 628”), Airport Road Conroe, LP, a Texas limited liability company (“Airport Road Conroe”), and Beazer Homes Texas, LP, a Delaware limited partnership (“Beazer Homes”) (Peoples Road, Meritage, Clay Road 628, Airport Road Conroe, and Beazer Homes are collectively referred to herein as the “Developers”) 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 December 1, 2025 and will accrue interest from the Date of Delivery, with interest payable each March 1 and September 1, beginning March 1, 2026 (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, Wastewater and Drainage Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed 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 Outstanding Water, Wastewater and Drainage Bonds, including the Bonds. Funds in the Water, Wastewater and Drainage Debt Service Fund are not available to pay principal and interest on the Outstanding Road Bonds, and funds in the Road Debt Service Fund are not available to pay principal and interest on the Outstanding Water, Wastewater and Drainage Bonds, including the Bonds.

The proceeds of sale of the Bonds shall be deposited into the Water, Wastewater and Drainage Capital Projects Fund, to be used for certain construction costs, reimbursing Developers for certain public infrastructure projects, and for paying the costs of issuance of the Bonds. Any monies remaining in the Water, Wastewater and Drainage Capital Projects Fund after completion of construction of all water, wastewater and drainage facilities will be used as described in the Bond Resolution or ultimately transferred to the Water, Wastewater and Drainage Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a complete description of the use of Bond proceeds and the projects related thereto.

**No Arbitrage**

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates then 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 that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

**Redemption Provisions**

*Mandatory Redemption:* The Bonds maturing on March 1 in each of the years 2042, 2044, 2046 and 2048 (the "Term Bonds") shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), on March 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District's reserved right of optional redemption, as provided under "Optional Redemption" below):

<b>\$1,410,000 Term Bonds</b>		<b>\$1,550,000 Term Bonds</b>	
<b>Due March 1, 2042</b>		<b>Due March 1, 2044</b>	
<b>Mandatory</b>	<b>Principal</b>	<b>Mandatory</b>	<b>Principal</b>
<b><u>Redemption Date</u></b>	<b><u>Amount</u></b>	<b><u>Redemption Date</u></b>	<b><u>Amount</u></b>
2041	\$ 690,000	2043	\$ 755,000
2042 (maturity)	720,000	2044 (maturity)	795,000
<b>\$1,700,000 Term Bonds</b>		<b>\$1,875,000 Term Bonds</b>	
<b>Due March 1, 2046</b>		<b>Due March 1, 2048</b>	
<b>Mandatory</b>	<b>Principal</b>	<b>Mandatory</b>	<b>Principal</b>
<b><u>Redemption Date</u></b>	<b><u>Amount</u></b>	<b><u>Redemption Date</u></b>	<b><u>Amount</u></b>
2045	\$ 830,000	2047	\$ 915,000
2046 (maturity)	870,000	2048 (maturity)	960,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

**Optional Redemption:** The District reserves the right, at its option, to redeem the Bonds maturing on or after March 1, 2033, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on March 1, 2032, 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 of 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 May 10, 2014, voters of the District authorized the issuance of \$171,000,000 principal amount of unlimited tax bonds for the purpose of constructing and/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, Chapter 8422, Texas Special District Local Laws Code, 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 \$171,000,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring water, wastewater and drainage facilities and for refunding such bonds, \$88,500,000 principal amount of unlimited tax bonds for the purpose of constructing roads and related improvements and for refunding such bonds and \$30,600,000 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. After the issuance of the Bonds, \$119,940,000 principal amount of the unlimited tax bonds for water, wastewater and drainage facilities and for refunding such bonds, \$30,600,000 principal amount of the unlimited tax bonds for park and recreational facilities and for refunding such bonds and \$62,455,000 principal amount of the unlimited tax bonds for the purpose of constructing roads and related improvements and for refunding such bonds will remain authorized but unissued. See "INVESTMENT CONSIDERATIONS—Future Debt."

The District is authorized by statute to develop parks and recreational facilities, including the issuance of bonds payable from taxes for such purpose. The principal amount of park bonds sold by the District is limited to one percent (1%) of the District's certified taxable assessed valuation, unless the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent (1%) but not greater than three percent (3%) of the value of the taxable property in the District. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas.

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.

### **Dissolution by the City of Conroe**

Under existing Texas law, because the District lies wholly within the corporate limits of the City, the District must conform to a City ordinance consenting to the creation of the District and its Utility and Road Agreement with the City. In addition, the District may be dissolved by the City without the District's consent provided certain conditions are met. If the District is dissolved, the City will assume the District's assets and obligations (including the Bonds). Dissolution of the District by the City is a policy matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that dissolution will or will not occur and makes no representation of the City's financial capability to pay debt service on the Bonds if such dissolution were to occur. See "UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE" for a discussion of certain limitations on the City's right to dissolve the District.

## **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. 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 "INVESTMENT CONSIDERATIONS—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, 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 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 of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://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.

## **UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE**

The District operates pursuant to a Utility and Road Agreement between the City and the District, dated as of December 12, 2013, and amended July 23, 2014 and November 6, 2020 (the "Utility and Road Agreement"). Pursuant to the Utility and Road Agreement, the City consented to the creation of the District within the city limits of the City, the District assumed responsibility for acquiring and constructing for the benefit of, and for ultimate conveyance to, the City, the water distribution, wastewater collection and drainage facilities and roads to serve development occurring within the boundaries of the District (the "Facilities") and the City agreed to accept the Facilities for operation and maintenance at the sole cost of the City in consideration for the District's financing acquisition and construction of the Facilities. In order to secure performance by the City of its obligations under the Utility and Road Agreement, the District retains a security interest in the Facilities transferred to the City until the District's bonds issued to acquire and construct the Facilities are paid off. It is the City's obligation to set rates and charges for the use of the Facilities and to bill and collect such rates and charges from customers of the Facilities. The City agrees to charge residents of the District the same water and wastewater rates that the City charges in other parts of the City with the exception of residents receiving utility service through the temporary wastewater treatment plant revenues and the Stanley Lake MUD interconnect, which shall be charged by the District until such time as the City accepts the Central Facilities (as defined below). Subject to the Utility Agreement's Second Amendment (discussed below), all revenues from the Facilities will belong exclusively to the City. The Utility and Road Agreement provides that the Facilities shall be designed and constructed in accordance with the City's requirements and criteria. The District retains ownership, operation and maintenance of park facilities and detention ponds.

The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity (for all areas in the District besides Pine Lake Cove, see below) without capital charges of any kind. The City has covenanted to maintain the Facilities, or cause the Facilities to be maintained, in good condition and working order and to operate the same, or cause the same, to be operated in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. The City has also covenanted to comply with all contractual provisions and agreements entered into by it and with all valid rules, regulation, directions or orders by any governmental or judicial body promulgating the same. See “THE SYSTEM.”

Under the Utility and Road Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities. Before the District can issue utility or park bonds, the District must provide the City with a copy of the TCEQ order authorizing issuance of the bonds and such order must provide that under the TCEQ’s rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$0.88 per \$100 of taxable assessed valuation. Before the District can issue road bonds, the District must also submit certain documentation to the City. The Utility and Road Agreement expressly provides that such condition is not a limitation on the District’s authority to levy an unlimited tax and that the District’s bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount. However, if the District’s debt service tax rate for a given year is \$0.88 per \$100 of taxable assessed valuation or higher, then the District’s maintenance and operations tax rate shall not exceed \$0.05 per \$100 of taxable assessed valuation without written consent from the City. Both the City and the District levy taxes on all taxable property within the District. The Utility and Road Agreement provides that the City pays an annual rebate to the District of a portion of the City’s tax rate related to the water, wastewater and drainage in order to prevent double payment of taxes by taxpayers in the District. The annual rebate is equal to the total assessed value in the District for a given year multiplied by the portion of the City’s tax rate that is attributable to water, wastewater or drainage facilities, which may increase or decrease over time. For tax year 2024, the City paid its annual rebate in the amount of \$46,513 to the District.

The City’s right to dissolve the District is restricted under the Utility and Road Agreement. Under the terms of the Utility and Road Agreement, the City agrees that it will not attempt to dissolve the District until ninety percent of the District’s Facilities have been developed and the developers advancing funds to construct the Facilities have been reimbursed to the maximum extent permitted by the rules of the TCEQ or the City assumes any obligation for such reimbursement of the District under such rules. See “THE BONDS—Dissolution by the City of Conroe.”

*Water and Wastewater Treatment Facilities to Serve Pine Lake Cove:* On November 6, 2020, the District and the City entered into a Second Amendment of the Utility Agreement (the “Second Amendment”), which addresses the development of Pine Lake Cove. Currently the City is unable to provide water and wastewater service to Pine Lake Cove and has entered into an agreement to have the District construct a permanent water supply facility and wastewater treatment plant (the “Central Facilities”) which would provide for approximately 1,200 water and wastewater connections. The Central Facilities will be designed and constructed by the District, and the City shall review and approve such plans.

Once completed the Central Facilities (including a water plant, water well(s), wastewater treatment plant, force main, and lift stations) will be conveyed to the City upon the City’s acceptance to be maintained, owned, and operated by the City. The District is authorized to issue bonds to finance the Central Facility costs which will be payable from contract payments payable by the City to the District (the “Central Facilities Bonds”). See “INVESTMENT CONSIDERATIONS—Future Debt.” Contract payments will be made annually in an amount equal to the lesser of (i) the tax increment collected by the City in Pine Lake Cove, or (ii) debt service on the Central Facilities Bonds. The City shall deposit the tax increment collected in Pine Lake Cove into an Infrastructure Fund to be used only to pay Central Facilities bond principal or interest payments or if bonds have not been issued, payment of the costs of the Central Facilities. The Contract Payment will be made by the City by April 30th of each year beginning with tax collections resulting from tax year 2021 and every year thereafter throughout the term of the Central Facilities Bonds. For tax years 2023 and 2024, the City has paid tax increment payments in the approximate amounts of \$357,313 and \$500,003, respectfully, to the District. For tax year 2025, the estimated tax increment payment is approximately \$666,102. Pursuant to the Second Amendment, the Central Facilities have been oversized at the City’s request to provide capacity to serve areas beyond Pine Lake Cove. The City agreed to fund such oversizing, and as of April 30, 2025, the City paid approximately \$2,191,270 to the District, which was used to reimburse Clay Road 628 for the construction of certain Central Facilities. Until the earlier of (i) the completion of the Central Facilities or (ii) December 31, 2026, residents in Pine Lake Cove will receive interim water supply via the Stanley Lake MUD interconnect and wastewater supply from the District’s permanent wastewater facilities, and the District shall operate such facilities and collect any associated revenues. See “THE SYSTEM.”

## USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Edminster, Hinshaw, Russ & Associates, Inc. d/b/a EHRA, Inc., the District’s engineer (the “Engineer”). 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. Surplus funds, including the surplus funds referenced below or any surplus funds resulting from the sale of the Bonds, may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

### CONSTRUCTION COSTS

• Stillwater Phase One Detention and Earthwork.....	\$	1,734,461
• Venetian Pines Phase One - Water, Wastewater and Drainage.....		733,481
• Montgomery Oaks, Section Two - Water, Wastewater and Drainage.....		1,548,461
• Montgomery Oaks, Sections Three and Four - Clearing, Grubbing and Mass Grading.....		694,901
• Montgomery Oaks, Section Three and Four - Water, Wastewater and Drainage.....		1,069,837
• Pine Lake Cove, Section Three - Water, Wastewater and Drainage, Clearing, Grubbing and Mass Grading.....		220,574
• Pine Lake Cove, Section Four - Water, Wastewater and Drainage.....		446,758
• Pine Lake Cove, Section Five - Water, Wastewater and Drainage.....		2,257,916
• Pine Lake Cove, Section Six - Water, Wastewater and Drainage.....		1,156,468
• Madeley Creek Lift Station.....		414,907
• Engineering and Geotechnical.....		1,414,662
• Storm Water Compliance.....		233,403
• Land Acquisition Costs.....		438,908
• Less: Surplus Funds (a).....		(330,000)
<b>Total Construction Costs.....</b>	<b>\$</b>	<b>12,034,737</b>

### NON-CONSTRUCTION COSTS

• Underwriter's Discount (b).....	\$	463,597
• Developer Interest (Estimated).....		2,196,615
<b>Total Non-Construction Costs.....</b>	<b>\$</b>	<b>2,660,212</b>

### ISSUANCE COSTS AND FEES

• Issuance Costs and Professional Fees.....	\$	668,285
• Bond Application Report Costs.....		58,088
• State Regulatory Fees.....		48,175
• Contingency (b).....		503
<b>Total Issuance Costs and Fees.....</b>	<b>\$</b>	<b>775,051</b>

**TOTAL BOND ISSUE..... \$ 15,470,000**

- (a) As approved by the TCEQ, the District will contribute \$330,000 of surplus Water, Wastewater and Drainage Capital Projects Funds toward the issuance of the Bonds. See “SUMMARY OF SELECTED FINANCIAL INFORMATION.”
- (b) In its order authorizing the issuance of the Bonds, the TCEQ approved a maximum Underwriter’s Discount of 3.00%. Contingency represents the difference in the estimated and actual amount of Underwriter’s Discount.

## THE DISTRICT

### **General**

The District is a political subdivision of the State of Texas, created by the 83rd Texas Legislature (Senate Bill No. 623) effective on June 14, 2013 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, and Chapter 8422 of the Texas Special District Local Laws Code. The District currently contains approximately 875 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 improvements. 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 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 lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City and recorded in the real property records. 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 consists of six non-contiguous tracts, all of which are wholly within the corporate limits of the City and located on average approximately 40 miles north of the City of Houston's downtown central business district. The six tracts comprising the District include (1) Stillwater (approximately 188 acres), located approximately one-half mile southwest of the intersection of Farm-to-Market Road 1488 and Interstate Highway 45 and bordered on the north by Guinn Road, Schoettle Road and Johnson Road; (2) Heritage Reserve (approximately 25 acres) located approximately three miles west of Interstate Highway 45 and one-half mile south of the intersection of League Line Road and Longmire Road; (3) Montgomery Oaks (approximately 126 acres) and Madeley Creek Preserve (approximately 69 acres) located approximately one mile west of the intersection of Interstate Highway 45 and League Line Road and along the south right-of-way of League Line Road; (4) Pine Lake Cove (approximately 314 acres) located approximately ten miles west of the intersection of Interstate Highway 45 and State Highway 105 and along the southern right-of-way of State Highway 105; (5) Venetian Pines (approximately 45 acres) located approximately two miles east of the intersection of Interstate Highway 45 and State Highway 105 and approximately one-half mile north of the intersection of State Highway 105 and Porter Road and along the eastern right-of-way of Airport Road; and (6) an undeveloped tract (approximately 108 acres) (the "Undeveloped Tract") located approximately one-half mile northwest of the intersection of State Highway 105 and North Loop 336 East and bordered on the west by North Loop 336 East. Stillwater, Venetian Pines and the Undeveloped Tract are located within the boundaries of Conroe Independent School District, Pine Lake Cove is located within the boundaries of Montgomery Independent School District, and Heritage Reserve, Montgomery Oaks and Madeley Creek Preserve are located within the boundaries of Willis Independent School District. See "AERIAL LOCATION MAP."

**Land Use**

The District’s land plan currently includes approximately 447 acres developed as 1,985 single-family residential lots, approximately 13 acres of multi-family development, approximately 240 acres that are undeveloped but developable and approximately 175 acres that are undevelopable consisting of rights-of-way, detention ponds, utility sites, lake amenities, easements, parks, recreational and open space, nature areas, and trails. The table below represents a detailed breakdown of the current acreage and development in the District.

<i>Single-Family Residential:</i>	Approximate <u>Acres</u>	<u>Lots</u>
Stillwater:		
Section One.....	34	76
Section Two.....	20	42
Section Three.....	19	65
Section Four.....	19	63
Section Five.....	19	68
Section Six.....	16	74
Section Seven.....	16	82
Subtotal.....	143	470
Heritage Reserve:		
Section One.....	18	66
Venetian Pines:		
Section One.....	17	105
Section Two.....	16	95
Subtotal.....	33	200
Pine Lake Cove:		
Section One.....	45	181
Section Two.....	21	140
Section Three.....	20	98
Section Four.....	19	77
Section Five.....	16	85
Section Six.....	15	86
Subtotal.....	136	667
Montgomery Oaks:		
Section One.....	23	133
Section Two.....	27	125
Section Three.....	13	69
Section Four.....	28	151
Subtotal.....	91	478
Madeley Creek Preserve:		
Section One.....	19	56
Section Two.....	7	48
Subtotal.....	26	104
Subtotal.....	447	1,985
Multi-Family.....	13	241
Future Development.....	240	--
Undevelopable (a).....	175	--
Subtotal.....	428	241
Total.....	875	2,226

(a) Represents rights-of-way, detention ponds, utility sites, lake amenities, easements, parks, recreational and open space, nature areas, and trails.

## **Status of Development**

Single-family residential development in the District consists of Stillwater (470 single-family residential lots on approximately 143 acres), Montgomery Oaks (478 single-family residential lots on approximately 91 acres), Venetian Pines (200 single-family residential lots on approximately 33 acres), Heritage Reserve (66 single-family residential lots on approximately 18 acres), Pine Lake Cove (667 single-family residential lots on approximately 136 acres) and Madeley Creek Preserve (104 single-family lots on approximately 26 acres). As of October 20, 2025, 1,732 homes were completed (1,593 occupied, 134 unoccupied and 5 models), 35 homes were under construction and 218 vacant developed lots were available for home construction.

The Terrace at Pine Lake Cove, a 241-unit multi-family development, has been constructed on approximately 13 acres in the District. According to the apartment community's management, The Terrace at Pine Lake Cove is approximately 80% occupied as of October 15, 2025. See "THE DEVELOPERS—Houston Pine Lake Residential, LLC."

## **Homebuilding**

Meritage is currently constructing homes in Montgomery Oaks and Pine Lake Cove at average sales prices of \$320,000 and \$327,000, respectively; Chesmar Homes, Empire Communities and D.R. Horton are currently constructing homes in Venetian Pines at an average sales price of \$292,000; and Beazer Homes is currently constructing homes in Madeley Creek Preserve at an average sales price of \$357,000.

## **THE DEVELOPERS**

### **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 Developers 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 "INVESTMENT CONSIDERATIONS."

### **Peoples Road – Houston, L.P.**

The primary developer of Stillwater is Peoples Road – Houston, L.P., a Delaware limited partnership ("Peoples Road"), the general partner of which is HHPXX GP, LLC, a Delaware limited liability company. Peoples Road is a single purpose entity formed for the sole purpose of developing approximately 111 acres within the District as Stillwater, Sections One through Five and selling homes within Stillwater. Peoples Road has completed development of the land that it owned and does not own any undeveloped but developable land in the District.

### **Meritage Homes of Texas LLC**

Meritage Homes of Texas LLC, an Arizona limited liability company ("Meritage"), has developed approximately 32 acres within the District as Stillwater, Sections Six and Seven (156 single-family residential lots), approximately 91 acres as Montgomery Oaks, Sections One through Four (478 single-family residential lots), and approximately 136 acres as Pine Lake Cove, Sections One through Six (667 single-family residential lots). Meritage is the sole builder in Stillwater, Sections Six and Seven, Montgomery Oaks, Sections One through Four, and Pine Lake Cove, Sections One through Six and continues to own approximately 111 acres of undeveloped but developable land in the District. Meritage is a wholly-owned subsidiary of Meritage Homes Corporation, a Maryland corporation whose common stock is listed on the New York Stock Exchange under the ticker symbol MTH. See "TAX DATA—Principal Taxpayers."

### **Clay Road 628 Development, L.P.**

Clay Road 628 Development, L.P., a Texas limited partnership ("Clay Road 628") originally owned approximately 281 acres of land in the District in Pine Lake Cove and currently owns approximately 56 acres of undeveloped but developable land in the District. KPS Land Investments, LP, a related entity to Clay Road 628, owns approximately 33 acres of undeveloped but developable land in the District for future development. See "TAX DATA—Principal Taxpayers."

**Airport Road Conroe, LP**

The developer of approximately 45 acres of land in the District (of which 33 acres were developable) developed as Venetian Pines is Airport Road Conroe, LP, a Texas limited liability company (“Airport Road Conroe”). Airport Road Conroe has completed development of Venetian Pines, Section One and Two (200 single-family residential lots on approximately 33 acres) and does not own any land for future development.

**Trez Capital Funding II, LLC**

Trez Capital Funding II, LLC, a Delaware limited liability company (“Trez Capital”) has developed approximately 18 acres of land consisting of 66 single-family residential lots within Heritage Reserve. Trez Capital has completed development of the land it owned in the District and does not own any land for future development.

**Beazer Homes Texas, LP**

Beazer Homes Texas, L.P., a Delaware limited partnership (“Beazer Homes”) has developed approximately 26 acres as Madeley Creek Preserve, Section One and Two (104 single-family residential lots). Beazer Homes continues to own approximately 40 acres of undeveloped but developable land in the District. See “TAX DATA—Principal Taxpayers.”

**Houston Pine Lake Residential, LLC**

Houston Pine Lake Residential, LLC, a Delaware limited liability company (“Houston Pine Lake”) previously acquired approximately 13 acres of land from Clay Road 628. Houston Pine Lake has constructed the Terrace at Pine Lake Cove, a 241-unit multi-family development, on such acreage. See “TAX DATA—Principal Taxpayers.”

**Obligations of the Developers**

There are no commitments from or obligations of the Developers, or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or 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 “INVESTMENT CONSIDERATIONS—Undeveloped Acreage, Vacant Land and Vacant Lots.”

**MANAGEMENT OF THE DISTRICT**

**Board of Directors**

The District is governed by the Board, consisting of four (4) directors with one vacant seat who own land within the District. The Board 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. 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>Title</u>	<u>Term Expires</u>
Guillermo Machado	President	May 2028
Vacant	Vice President	May 2026
M. Chance Mock	Secretary	May 2026
Scott Burrer	Assistant Vice President	May 2028
Starsky Wallin	Assistant Secretary	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 April 30, 2025, 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 April 30, 2025.

*Engineer:* The District’s consulting engineer is Edminster, Hinshaw, Russ & Associates, Inc. d/b/a EHRA, Inc. Bleyl Engineers and SpearPoint Engineering are designing and supervising construction of the sections within Pine Lake Cove and Montgomery Oaks, respectively.

*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. Utility Tax Service, LLC (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 the City of Conroe. For Pine Lake Cove, Stanley Lake MUD serves as the operator for the water system and Hays Utility North Corporation serves as the District’s operator for the permanent wastewater treatment plant and will serve as the District’s operator for the Pine Lake Cove water and wastewater treatment plants until such time as the City accepts such facilities for ownership and operation.

## THE SYSTEM

### **Regulation**

Construction and operation of the District’s water, sanitary sewer and storm drainage system (the “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 System.

### **Water Supply and Wastewater Treatment**

Pursuant to a Utility and Road Agreement between the District and the City, as amended, water supply capacity and wastewater treatment capacity for approximately 605 acres of land within the District consisting of the Stillwater Tract, Montgomery Oaks Tract, Venetian Pines Tract, Heritage Reserve Tract, Madeley Creek Preserve Tract and the Undeveloped Tract is provided or will be provided by the City and all revenues from the collection of charges for water and sewer services are paid directly to the City and the City provides or will provide retail water and sewer services to the residents in the Stillwater Tract, Montgomery Oaks Tract, Venetian Pines Tract, Heritage Reserve Tract, Madeley Creek Preserve Tract and the Undeveloped Tract.

The District secured and is funding interim water capacity for residents within Pine Lake Cove (the “Pine Lake Cove System”) through construction of an interconnection with Stanley Lake MUD that is capable of serving up to 1,000 equivalent single-family connections until the earlier of (i) the District’s completion of permanent potable water production or (ii) December 31, 2026. Stanley Lake MUD will meter the water supply interconnection and will bill the District monthly based upon usage and based on the most recent estimate of taxable value of Pine Lake Cove times \$0.15 per \$100 of taxable assessed valuation. A permanent water plant has been constructed by the District and two on-site water wells as well as a remote water well are under construction with completion expected in the fourth quarter of 2026, which will provide a potable water supply to residents of Pine Lake Cove. Upon completion, the two on-site water wells and the remote well, along with the permanent water plant are intended to be conveyed to the City. The District expects to convey the on-site water wells, the remote water well and the permanent water plant, along with the permanent wastewater treatment plant, to the City in 2026. Should such conveyance not occur prior to December 31, 2026, the District will be required to seek an extension of water supply from Stanley Lake MUD or another source. A permanent wastewater treatment plant has been constructed by the District and the District expects to convey the wastewater treatment plant to the City upon the completion of the permanent water plant. The wastewater treatment plant will be owned and operated by the City upon conveyance. The District currently owns and operates such permanent wastewater treatment plant and collects revenues from such wastewater treatment plant. The wastewater treatment plant has sufficient capacity to serve 1,200 equivalent single-family connections, of which the District is currently serving 465 equivalent single-family connections.

Permanent water supply and wastewater treatment capacity to serve the Pine Lake Cove System will ultimately be provided by the Central Facilities constructed by the District. The City will fund a portion of the expenses for the Central Facilities. The District will convey such Central Facilities to the City for ownership, operation and maintenance at the City’s expense. Additionally, the City has agreed to make an annual contract payment (the “Contract Payment”) from the City’s ad valorem tax revenue equal to the lesser of the tax increment collected by the City within Pine Lake Cove or District’s debt service on bonds issued for that purpose. All Contract Payments from the City are limited to the sole purpose of paying a portion of the principal and interest on bonds issued by the District to finance the Central Facilities, or if bonds have not been issued, for payment of Central Facilities. The Contract Payment shall be payable by April 30 of each year beginning in 2021

and every year thereafter throughout the term of bonds issued to finance the Central Facilities. For tax years 2023 and 2024, the City has paid tax increment payments in the approximate amounts of \$357,313 and \$500,003, respectively, to the District. For tax year 2025, the estimated tax increment payment is approximately \$666,102. See “UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE” for a more complete description of the facilities and agreements related to Pine Lake Cove. The District has authorized preparation of a bond application to be submitted to the TCEQ requesting approval to sell approximately \$6,185,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities (the “Series 2026 Bonds”). The District expects TCEQ approval and issuance of such bonds in the second quarter of 2026. The District expects to pay debt service on said bonds from the Contract Payments from the City. In connection with such bond application to the TCEQ, the District anticipates selling a bond anticipation note (the “2025 BAN”) in the approximate principal amount of \$4,025,000 in the fourth quarter of 2025. The District will use a portion of the proceeds from the Series 2026 Bonds expected to be issued in the second quarter of 2026 to redeem the 2025 BAN prior to maturity. See “THE BONDS—Issuance of Additional Debt,” “SELECTED FINANCIAL INFORMATION—Short-Term Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”

### **Water and Wastewater Capacity for Pine Lake Cove**

The District’s interim water supply agreement with Stanley Lake MUD, providing for 1,000 equivalent single-family connections, for the residents within Pine Lake Cove is set to terminate on the earlier of (i) December 31, 2026 or (ii) the District’s completion of potable water production facilities, unless otherwise extended by the parties. The District has authorized the design and construction of a remote water well in addition to two wells adjacent to the water plant, which will provide a potable water supply to the residents within Pine Lake Cove with the District’s already constructed permanent water plant. The District’s intent is to complete such facilities and convey to the City all facilities necessary to provide potable water supply to residents within Pine Lake Cove. Should such conveyance not occur prior to December 31, 2026, the District will be required to seek the provision of an extension of water supply from Stanley Lake MUD or another source. For the Pine Lake Cove development, the District has completed and is operating its permanent wastewater treatment plant and expects to convey such facilities to the City contemporaneously with its conveyance of the potable water system.

### **Surface Water Conversion**

The District is within the boundaries of the Lone Star Groundwater Conservation District (the “Conservation District”) which regulates groundwater withdrawal. Because the District is served by the City with water, the District has no potable water wells subject to regulation by the Conservation District.

The City is a participant in the San Jacinto River Authority (“SJRA”) Groundwater Reduction Plan (“GRP”). The SJRA is constructing a surface water treatment facility and transmission system to provide treated surface water to the City. With the exception of the Stanley MUD interconnect, the transmission system is interconnected to the City’s water system.

### **100-Year Flood Plain**

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (“FEMA”) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, approximately 35 acres in the District lie within an area designation by FEMA that indicates a one percent annual chance of flooding. No development has occurred on such acreage located in the 100-year flood plain. See “INVESTMENT CONSIDERATIONS—Extreme Weather Events.”

### **Atlas 14**

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain. See “INVESTMENT CONSIDERATIONS—Atlas 14.”

## ROAD SYSTEM

The road system (“Roads”) serves the residents of Stillwater, Heritage Reserve, Montgomery Oaks, Venetian Pines and Pine Lake Cove by providing access to major thoroughfares from local collectors within such developments. A portion of the proceeds from the Series 2017 Road Bonds were expended to acquire the rights-of-way for the Peoples Road access easement and rights-of-way for the local collector roads within Stillwater, Section One and Section Three and a portion of the proceeds from the Series 2021 Road Bonds were expended to pave and acquire the rights-of-way for the local collector streets within Stillwater, Sections One, Six and Seven and Heritage Reserve, Section One. A portion of the proceeds from the Series 2022 Road Bonds were expended for paving and acquisition of the rights-of-way for the certain public streets within Venetian Pines, Section One. A portion of the proceeds from the Series 2023 Road Bonds were expended for paving, road related improvements and land acquisition for certain public streets within Venetian Pines, Sections One and Two, Montgomery Oaks, Section One, Stillwater, Sections One, Two, Three and Seven and Pine Lake Cove, Section One. All Roads within Stillwater, Heritage Reserve, Montgomery Oaks, Venetian Pines and Pine Lake Cove are owned and maintained by the City, except for the roads within Stillwater, Section Two, which are gated and maintained by the homeowners association.

### SELECTED FINANCIAL INFORMATION

2025 Taxable Assessed Valuation.....	\$650,636,683	(a)
Estimated Taxable Assessed Valuation as of July 15, 2025.....	\$722,782,700	(b)
Gross Direct Debt Outstanding (the Outstanding Bonds and the Bonds).....	\$ 73,460,000	(c)
Estimated Overlapping Debt .....	<u>46,778,707</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$120,238,707	
Ratios of Gross Direct Debt to:		
2025 Taxable Assessed Valuation.....	11.29%	
Estimated Taxable Assessed Valuation as of July 15, 2025.....	10.16%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2025 Taxable Assessed Valuation.....	18.48%	
Estimated Taxable Assessed Valuation as of July 15, 2025.....	16.64%	
Funds Available for Debt Service:		
Road Debt Service Fund as of September 23, 2025 .....	\$ 880,267	
Water, Wastewater and Drainage Debt Service Fund as of September 23, 2025 .....	<u>1,418,247</u>	
Total Funds Available for Debt Service as of September 23, 2025 .....	\$2,298,514	
Operating Funds Available as of September 23, 2025 .....	\$1,340,236	(e)
Road Capital Projects Funds Available as of September 23, 2025.....	\$ 343	
Water, Wastewater and Drainage Capital Projects Funds Available as of September 23, 2025 .....	\$ 338,240	(f)

- (a) The Montgomery Central Appraisal District (the “Appraisal District”) has certified \$597,202,364 of taxable value and an additional \$53,434,319 of taxable value remains uncertified. The uncertified value represents the opinion of value by the Appraisal District; however, such value is subject to change and downward revision prior to certification. The 2025 Taxable Assessed Valuation shown throughout this OFFICIAL STATEMENT is the certified value plus the uncertified value. See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed valuation within the District on July 15, 2025. No tax will be levied on such amount until it is certified. See “TAXING PROCEDURES.”
- (c) After issuance of the Bonds. See “—Outstanding Debt” herein.
- (d) See “—Estimated Overlapping Debt” herein.
- (e) Excludes approximately \$217,123 of Pine Lake Cove operating funds, which cannot be used to pay expenses in any parts of the District outside of the Pine Lake Cove System. See “UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE—Water and Wastewater Treatment Facilities to Serve Pine Lake Cove” and “THE SYSTEM—Water Supply and Wastewater Treatment.”
- (f) The District will contribute \$330,000 of surplus Water, Wastewater and Drainage Capital Projects Funds toward the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

### **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.

**Short-Term Debt**

The District has authorized preparation of a bond application to be submitted to the TCEQ requesting approval to sell approximately \$6,185,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities. The District expects to pay debt service on said bonds from the Contract Payments from the City. In connection with such bond application, the District anticipates selling the 2025 BAN in the approximate principal amount of \$4,025,000 in the fourth quarter of 2025. The District will use a portion of the proceeds from the Series 2026 Bonds expected to be issued in the second quarter of 2026 to redeem the 2025 BAN prior to maturity. See “INVESTMENT CONSIDERATIONS—Future Debt.”

**Debt Service Requirements**

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

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2026	\$ 4,101,625.00	\$ -	\$ 523,158.30	\$ 523,158.30	\$ 4,624,783.30
2027	4,095,368.75	355,000	688,600.00	1,043,600.00	5,138,968.75
2028	4,079,937.50	370,000	665,037.50	1,035,037.50	5,114,975.00
2029	4,073,906.25	390,000	640,337.50	1,030,337.50	5,104,243.75
2030	4,073,300.00	410,000	614,337.50	1,024,337.50	5,097,637.50
2031	4,069,575.00	430,000	587,037.50	1,017,037.50	5,086,612.50
2032	4,085,225.00	450,000	558,437.50	1,008,437.50	5,093,662.50
2033	4,098,050.00	470,000	532,062.50	1,002,062.50	5,100,112.50
2034	4,109,312.50	495,000	507,937.50	1,002,937.50	5,112,250.00
2035	4,125,862.50	515,000	485,262.50	1,000,262.50	5,126,125.00
2036	4,132,500.00	545,000	464,062.50	1,009,062.50	5,141,562.50
2037	4,149,787.50	570,000	441,762.50	1,011,762.50	5,161,550.00
2038	4,167,187.50	595,000	418,462.50	1,013,462.50	5,180,650.00
2039	4,184,012.50	625,000	394,062.50	1,019,062.50	5,203,075.00
2040	4,198,943.75	655,000	368,053.13	1,023,053.13	5,221,996.88
2041	4,207,106.25	690,000	340,312.50	1,030,312.50	5,237,418.75
2042	4,224,000.00	720,000	311,231.25	1,031,231.25	5,255,231.25
2043	3,819,150.00	755,000	280,809.38	1,035,809.38	4,854,959.38
2044	3,353,275.00	795,000	248,840.63	1,043,840.63	4,397,115.63
2045	3,356,650.00	830,000	215,325.00	1,045,325.00	4,401,975.00
2046	3,373,962.50	870,000	180,262.50	1,050,262.50	4,424,225.00
2047	3,103,918.75	915,000	143,446.88	1,058,446.88	4,162,365.63
2048	1,800,300.00	960,000	104,775.00	1,064,775.00	2,865,075.00
2049	1,809,000.00	1,005,000	64,246.88	1,069,246.88	2,878,246.88
2050	-	1,055,000	21,759.38	1,076,759.38	1,076,759.38
<b>Total</b>	<b>\$ 90,791,956.25</b>	<b>\$ 15,470,000</b>	<b>\$ 9,799,620.80</b>	<b>\$ 25,269,620.80</b>	<b>\$ 116,061,577.05</b>

Average Annual Debt Service Requirements (2026-2050) ..... \$4,642,463  
 Maximum Annual Debt Service Requirement (2042) ..... \$5,255,231

**Outstanding Debt**

The District has previously issued \$35,590,000 principal amount of unlimited tax bonds for water, wastewater and drainage facilities (the “Outstanding Water, Wastewater and Drainage Bonds”) in three series and \$26,045,000 principal amount of unlimited tax bonds for roads and related improvements (the “Outstanding Road Bonds”) in four series, \$57,990,000 of which collectively remains outstanding (the “Outstanding Bonds”) as of the date hereof. The following table lists the original principal amount of the Outstanding Bonds and the Outstanding Bonds.

Series		Original Principal Amount	Outstanding Bonds
2017	(a)	\$ 6,040,000	\$ 4,875,000
2018		7,000,000	5,990,000
2021	(a)	4,480,000	4,205,000
2022	(a)	1,800,000	1,720,000
2023		17,205,000	16,360,000
2023	(a)	13,725,000	13,455,000
2024		11,385,000	11,385,000
Total		\$ 61,635,000	\$ 57,990,000

(a) Unlimited tax road bonds.

**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.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Montgomery County.....	\$ 516,260,000	8/31/2025	0.59%	\$ 3,045,934
City of Conroe.....	495,845,000	8/31/2025	3.86%	19,139,617
Conroe Independent School District (a).....	2,512,490,000	8/31/2025	0.51%	12,813,699
Willis Independent School District (a).....	447,620,000	8/31/2025	1.14%	5,102,868
Montgomery Independent School District (a).....	581,745,000	8/31/2025	1.02%	5,933,799
Lone Star College System.....	436,935,000	8/31/2025	0.17%	742,790
The District.....	73,460,000 (b)	Current	100.00%	73,460,000
Total Direct and Estimated Overlapping Debt.....				\$ 120,238,707

Direct and Estimated Overlapping Debt as a Percentage of:

2025 Taxable Assessed Valuation of \$650,636,683 .....	18.48%
Estimated Taxable Assessed Valuation as of July 15, 2025 of \$722,782,700.....	16.64%

- (a) Different areas of the District are located within different school districts. See “THE DISTRICT—Description and Location” and “—Overlapping Taxes” herein.
- (b) Includes the Bonds and the Outstanding Bonds.

**Overlapping Taxes**

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

Set forth below are all of the taxes levied for the 2025 tax year by all taxing jurisdictions overlapping the District and the District’s 2025 tax rate. 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.

	Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Montgomery County.....	\$ 0.3770
Montgomery Independent School District.....	1.0912 (a)
Montgomery County Hospital District.....	0.0473
City of Conroe.....	<u>0.4272</u>
 Total Overlapping Tax Rate.....	 \$ 1.9427
 The District (b).....	 <u>0.8800</u>
 Total Tax Rate.....	 \$ 2.8227

- (a) Pine Lake Cove is located within the boundaries of the Montgomery Independent School District. Montgomery Oaks and Madeley Creek Preserve are located within the boundaries of the Willis Independent School District., which set its 2025 tax rate at \$1.0349 per \$100 of taxable assessed valuation, creating a total tax rate for taxpayers in this area of \$2.8740 per \$100 of taxable assessed valuation. Stillwater, Venetian Pines, and the Undeveloped Tract are located within the boundaries of Conroe Independent School District, which set its 2025 tax rate at \$0.9496 per \$100 of taxable assessed valuation, creating a total tax rate for taxpayers in these areas of \$2.7887 per \$100 of taxable assessed valuation.
- (b) See “TAX DATA—Historical Tax Rate Distribution.”

## 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 fiscal years ended April 30, 2021 through April 30, 2025. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. This does not include the Pine Lake Cove Operating Fund, which cannot be used to pay expenses in parts of the District outside of the Pine Lake Cove System. See "UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE" and "THE SYSTEM." Reference is made to "APPENDIX A" for further and complete information.

	Fiscal Year Ended April 30				
	2025	2024	2023	2022	2021
<b>Revenues</b>					
Property Taxes	\$ 1,005,165	\$ 955,997	\$ 723,767	\$ 326,012	\$ 147,250
Water Service	191,361	103,732	45,795	8,102	-
Sewer Service	305,045	204,508	111,492	28,367	-
Penalty and Interest	4,081	4,216	2,601	757	-
San Jacinto River Authority Fees	165,501	99,880	45,558	2,176	-
Tap Connection and Inspection	279,006	394,063	289,373	404,621	-
City of Conroe Drainage Tax Rebate	-	-	105,534	10,433	-
Investment Earnings	57,300	38,288	24,000	188	268
Miscellaneous	24,921	22,100	14,901	-	-
<b>Total Revenues</b>	<b>\$ 2,032,380</b>	<b>\$ 1,822,784</b>	<b>\$ 1,363,021</b>	<b>\$ 780,656</b>	<b>\$ 147,518</b>
<b>Expenditures</b>					
Professional Fees	\$ 336,814	\$ 444,663	\$ 331,996	\$ 171,653	\$ 182,939
Purchased Services	484,319	172,545	87,798	5,006	-
Contracted Services	122,613	303,553	197,093	137,026	20,141
Repairs and Maintenance	421,854	330,991	297,296	158,754	165,511
Utilities	38,340	31,591	22,493	15,816	-
Groundwater Reduction Fees	9,102	7,198	2,479	-	-
Administrative	53,695	36,029	27,968	21,611	21,177
Other	31,620	17,098	22,116	8,320	7,957
Capital Outlay	101,860	-	-	-	-
<b>Total Expenditures</b>	<b>\$ 1,600,217</b>	<b>\$ 1,343,668</b>	<b>\$ 989,239</b>	<b>\$ 518,186</b>	<b>\$ 397,725</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ 432,163</b>	<b>\$ 479,116</b>	<b>\$ 373,782</b>	<b>\$ 262,470</b>	<b>\$ (250,207)</b>
<b>Other Sources (Developer Advances)</b>					
Developer Advances	\$ 100,000 (a)	\$ -	\$ -	\$ 132,391	\$ 100,000
Internal Transfers	-	(55,822)	-	-	-
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 1,281,455</b>	<b>\$ 858,161</b>	<b>\$ 484,379</b>	<b>\$ 89,518</b>	<b>\$ 239,725</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 1,813,618</b>	<b>\$ 1,281,455</b>	<b>\$ 858,161</b>	<b>\$ 484,379</b>	<b>\$ 89,518</b>

(a) The District made a \$100,000 refundable cash deposit to Stanley Lake MUD, which will be returned by the District, without interest, within 30 days of issuance of an engineer's certificate of completion and activation of the Central Facilities to provide service to Pine Lake Cove. However, if the Central Facilities are not complete and operational by December 31, 2026, the deposit will be retained by Stanley Lake MUD and the District will be required to seek an extension of water supply from Stanley Lake MUD or another source. See "THE SYSTEM—Water Supply and Wastewater Treatment."

## 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. See “—Historical Tax Rate Distribution” below and “—Tax Roll Information” herein, 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 May 10, 2014, 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 taxable assessed valuation and a road maintenance tax at a rate not to exceed \$0.25 per \$100 of taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. Pursuant to the Utility and Road Agreement between the District and the City, if the District’s debt service tax rate for a given year is \$0.88 per \$100 of taxable assessed valuation or higher, then the District’s maintenance and operations tax rate shall not exceed \$0.05 per \$100 of taxable assessed valuation without written consent from the City. See “UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE” and “—Debt Service Tax” above.

### Historical Tax Rate Distribution

	2025	2024	2023	2022	2021
Debt Service	\$ 0.740	\$ 0.700	\$ 0.665	\$ 0.560	\$ 0.640
Maintenance and Operations	0.140	0.180	0.215	0.320	0.240
Total	\$ 0.880	\$ 0.880	\$ 0.880	\$ 0.880	\$ 0.880

### Tax Exemptions

As discussed in the section titled “TAXING PROCEDURES,” certain property may be exempt from taxation by the District. For the 2025 tax year, the District has granted a residential homestead exemption in the amount of \$10,000 for persons age 65 years of age or older or disabled.

### 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.

### 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” herein.

Tax Year	Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy (b)	Total Collections as of August 31, 2025 (c)	
				Amount	Percent
2020	\$ 101,660,729	\$ 0.88	\$ 894,614	\$ 894,614	100.00%
2021	137,782,856	0.88	1,212,489	1,212,489	100.00%
2022	241,552,874	0.88	2,125,665	2,097,525	98.68%
2023	445,269,741	0.88	3,918,374	3,902,957	99.61%
2024	564,641,777	0.88	4,968,848	4,917,324	98.96%
2025	650,636,683	0.88	5,725,603	(d)	(d)

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “—Tax Roll Information” herein for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Unaudited.
- (d) In process of collection. Taxes for 2025 are due by January 31, 2026.

**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 2021 through 2025 Taxable Assessed Valuations. Accurate breakdowns related to the uncertified portion (\$53,434,319) of the 2025 Taxable Assessed Valuation of \$650,636,683 and the Estimated Taxable Assessed Valuation as of July 15, 2025, of \$722,782,700 are not available as of the date hereof. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	2025 Taxable <u>Assessed Valuation</u>	2024 Taxable <u>Assessed Valuation</u>	2023 Taxable <u>Assessed Valuation</u>	2022 Taxable <u>Assessed Valuation</u>	2021 Taxable <u>Assessed Valuation</u>
Land	\$ 133,274,859	\$ 130,319,959	\$ 102,847,895	\$ 81,214,625	\$ 50,239,920
Improvements	497,326,062	453,296,507	353,761,919	165,594,531	90,247,819
Personal Property	6,058,176	39,134,497 (a)	27,649,384 (b)	312,195	210,255
Exemptions	<u>(39,456,733)</u>	<u>(58,109,186) (a)</u>	<u>(38,989,457) (b)</u>	<u>(5,568,477)</u>	<u>(2,915,138)</u>
Total Certified	\$ 597,202,364	\$ 564,641,777	\$ 445,269,741	\$ 241,552,874	\$ 137,782,856
Uncertified Value	53,434,319	-	-	-	-
Total	<u>\$ 650,636,683</u>	<u>\$ 564,641,777</u>	<u>\$ 445,269,741</u>	<u>\$ 241,552,874</u>	<u>\$ 137,782,856</u>

- (a) The 2024 personal property value includes \$38,080,027 of value that was erroneously included by the Appraisal District in the District’s 2024 tax rolls. Such value is offset by a corresponding exemption.
- (b) The 2023 personal property value includes \$26,585,161 of value that was erroneously included by the Appraisal District in the District’s 2023 tax rolls. Such value is offset by a corresponding exemption.

**Principal Taxpayers**

The following table represents the ten major taxpayers, the taxable assessed valuation of such property, and such property’s taxable assessed valuation as a percentage of the certified portion (\$597,202,364) of the 2025 Taxable Assessed Valuation of \$650,636,683. Accurate principal taxpayer lists related to the uncertified portion (\$53,434,319) of the 2025 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of July 15, 2025, of \$722,782,700 are not available as of the date hereof.

<u>Taxpayer</u>	<u>2025 Certified Taxable Assessed Valuation</u>	<u>% of 2025 Certified Taxable Assessed Valuation</u>
Houston Pine Lake Residential LLC (a)	\$ 34,000,000	5.69%
Meritage Homes of Texas LLC (a)(b)	20,193,703	3.38%
Individual	3,447,477	0.58%
Beazer Homes Texas LP (a)	3,117,089	0.52%
Clay Road 628 Development LP (a)	2,636,660	0.44%
DR Horton Texas LTD (b)	2,635,062	0.44%
Individual	2,360,320	0.40%
Individual	2,109,620	0.35%
Individual	1,990,030	0.33%
Individual	1,891,690	0.32%
Total	<u>\$ 74,381,651</u>	<u>12.46%</u>

- (a) See “THE DEVELOPERS.”
- (b) See “THE DISTRICT—Homebuilding.”

**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 2025 Taxable Assessed Valuation of \$650,636,683 (consisting of \$597,202,364 of certified value and \$53,434,319 of uncertified value), and the Estimated Taxable Assessed Valuation as of July 15, 2025, of \$722,782,700. 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 “SELECTED FINANCIAL INFORMATION—Debt Service Requirements” and “INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2026-2050) .....	\$4,642,463
\$0.76 Tax Rate on the 2025 Taxable Assessed Valuation .....	\$4,697,597
\$0.68 Tax Rate on the Estimated Taxable Assessed Valuation as of July 15, 2025 .....	\$4,669,176
Maximum Annual Debt Service Requirement (2042).....	\$5,255,231
\$0.86 Tax Rate on the 2025 Taxable Assessed Valuation .....	\$5,315,702
\$0.77 Tax Rate on the Estimated Taxable Assessed Valuation as of July 15, 2025 .....	\$5,287,155

No representations or suggestions are made that the uncertified portion of the 2025 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of July 15, 2025 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 their 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, the Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond 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 Board 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. For the 2025 tax year, the District has granted a residential homestead exemption in the amount of \$10,000 for persons age 65 years of age or older or disabled. 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. 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, 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 is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead 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. See "TAX DATA." For tax year 2025, the District has not adopted a general residential homestead exemption.

*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. The City agreed to reinvest certain portions of the tax increment generated within Pine Lake Cove to fund the Central Facilities via the Utility and Road Agreement. See "UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE."

### **Valuation of Property for Taxation**

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

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value 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 fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. 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 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 as to 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 (3) years for agricultural use, open space land, and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The 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 formally to include such values on its appraisal roll.

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

### **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 jurisdictions discretion, to adopt a similar installment payment option for taxes imposed on property that is located within a designated disaster area or emergency area, and is owned or leased by certain qualified business entities, regardless of whether the property has been damaged as a direct result of the disaster or emergency.

### **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 roll back election held within any of the districts described below.

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

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

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

*The District:* A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. The District has been designated as a "Developing District" for the 2025 tax year. 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 rollback election calculation.

## **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "SELECTED FINANCIAL INFORMATION—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 limitations set forth 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, and by taxpayer redemption rights. A taxpayer may redeem commercial property within six months and all other types of property within two (2) years 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 "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of 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 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 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 taxable property within the District will 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" herein.

### **Undeveloped Acreage, Vacant Land and Vacant Lots**

There are approximately 240 developable acres of land within the District that have not been fully provided with water, wastewater and storm drainage facilities necessary to the construction of new development and 218 single-family residential lots that remain vacant as of October 20, 2025. Future increases in value will result primarily from the construction of new single-family residential homes. 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 Developers to develop the developable land or of builders to construct homes on the developed lots could restrict the rate of growth of taxable values in the District. See "THE DISTRICT—Land Use" and "—Status of Development."

### **Developers' Obligation to the District**

There are no commitments from or obligations of the Developers or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or 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. However, Developers are obligated to advance funding for certain District operational expenses. 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 DEVELOPERS."

### **Increase in Costs of Building Materials**

As a result of supply issues, shipping constraints, and ongoing trade disputes (including tariffs), there have been recent substantial increases in the cost of lumber and other building materials, causing many homebuilders and general contractors to experience budget overruns. Further, the unpredictable nature of current trade policy (including the threatened imposition of tariffs) may impact the ability of the Developers or homebuilders in the District to estimate costs. Additionally, immigration policies may affect the State's workforce, and any labor shortages that could occur may impact the rate of construction within the District. Uncertainty surrounding availability and cost of materials may result in decreased levels of construction activity, and may restrict the growth of property values in the District. The District makes no representations regarding the probability of development or homebuilding continuing in a timely manner or the effects that current or future economic or governmental circumstances may have on any plans of the Developers or homebuilders.

## **Economic Factors and Interest Rates**

The majority of the taxable value of the District results from the current market value of single-family residences, multi-family residences and of developed lots which are currently being marketed by the Developers 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” herein), 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 could tend to restrict the growth of property values in the District or could adversely impact such values.

## **Credit Markets and Liquidity in the Financial Markets**

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of the Developers or property owners 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, since the District is located approximately 40 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of the District’s taxable property values are, to a great extent, a function of the greater Houston 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 of or reduce the District’s property tax base.

## **Competition**

The demand for and construction of single-family homes and multi-family development in the District could be affected by competition from other residential and multi-family 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 closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developers 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 by the Developers will be implemented or, if implemented, will be successful.

## **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 2025 Taxable Assessed Valuation is \$650,636,683 (consisting of \$597,202,364 of certified value and \$53,434,319 of uncertified value). After issuance of the Bonds, the maximum annual debt service requirement will be \$5,255,231 (2042), and the average annual debt service requirement will be \$4,642,463 (2026-2050 inclusive). Assuming no increase or decrease from the 2025 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.86 and \$0.76 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 the average annual debt service requirements, respectively. A debt service tax rate over \$0.88 per \$100 of taxable assessed valuation may affect the District’s ability to levy more than \$0.05 for operations (unless the City consents to a higher operations and maintenance tax rate). See “UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE.” See “SELECTED FINANCIAL INFORMATION—Debt Service Requirements” and “TAX DATA—Tax Adequacy for Debt Service.” The Estimated Taxable Assessed Valuation as of July 15, 2025 is \$722,782,700, which reduces the above tax calculations related to the maximum annual debt service requirement and average annual debt service requirement to \$0.77 and \$0.68 per \$100 of taxable assessed valuation, respectively.

No representation or suggestion is made that the uncertified portion of the 2025 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of July 15, 2025 will be the amounts 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.”

## **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. A total of \$171,000,000 principal amount of unlimited tax bonds has been authorized by the District's voters for the purpose of constructing and/or acquiring water, wastewater, and drainage facilities and for refunding such bonds, \$88,500,000 principal amount of unlimited tax bonds for the purpose of constructing roads and related improvements and for refunding such bonds and \$30,600,000 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, \$119,940,000 principal amount of the unlimited tax bonds for water, wastewater and drainage facilities and refunding such bonds, \$62,455,000 principal amount of the unlimited tax bonds for roads and related improvements and refunding such bonds and \$30,600,000 principal amount of the unlimited tax bonds for park and recreational facilities and refunding such bonds will remain 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. The District has authorized preparation of a bond application to be submitted to the TCEQ requesting approval to sell approximately \$6,185,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities. The District expects TCEQ approval and issuance of such bonds in the second quarter of 2026. The District expects to pay debt service on said bonds from the Contract Payments from the City. In connection with such bond application to the TCEQ, the District anticipates selling the 2025 BAN in the approximate principal amount of \$4,025,000 in the fourth quarter of 2025. The District will use a portion of the proceeds from the Series 2026 Bonds expected to be issued in the second quarter of 2026 to redeem the 2025 BAN prior to maturity. See "THE BONDS—Issuance of Additional Debt" and "SELECTED FINANCIAL INFORMATION—Short-Term Debt."

The principal amount of bonds issued to finance parks and recreational facilities may not exceed one percent (1%) of the District's certified value, 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.

To date, the Developers and other landowners have advanced certain funds for engineering and construction of water, wastewater and drainage facilities, recreational facilities and roads and related improvements for which they have not been reimbursed. After the reimbursements are made with Bond proceeds, the District will owe approximately \$59,100,000 plus interest to the Developers. The District intends to issue additional bonds in order to reimburse the Developers and other landowners for existing development and to develop the remainder of undeveloped but developable land (approximately 240 acres). The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds for water, wastewater and drainage facilities and recreational facilities is subject to approval by the TCEQ 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."

## **Potential Effects of Oil Price Fluctuations on the Houston Area**

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

## **Extreme Weather Events**

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

According to Edminster, Hinshaw, Russ & Associates, Inc. d/b/a EHRA, Inc. (the "Engineer"), the District's water and sewer system did not sustain any material damage and there was no interruption of water and sewer service, and the impact from Hurricane Harvey to property within the District included erosion of sand into the streets, which has been remediated. Further, to the knowledge of the District, no homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

## **Specific Flood Type Risks**

*Riverine (or Fluvial) Flood:* Riverine, or fluvial flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may 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, levee or reservoir also could potentially create a flooding condition in rivers, bayous, or man-made drainage systems (canals or channels) downstream.

*Ponding (or Pluvial) Flood:* Ponding, or pluvial flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can 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, levee or reservoir.

## **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 "SELECTED FINANCIAL INFORMATION—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. 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.

### **Environmental Regulation**

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.

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, 2024. 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.

#### **Atlas 14**

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees and stricter building codes for any property located within the expanded boundaries of the floodplain. See “THE SYSTEM.”

## **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.

## **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."

The long-term ratings on the Bonds are dependent in part on the financial strength of the insurer and its claims 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) of 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.

## **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 Allen Boone Humphries Robinson LLP, 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," "UTILITY AND ROAD AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE" 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 Preliminary 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**

**The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.**

### **Tax Exemption**

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

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 bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the 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 that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the District and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the District and such parties, which Bond Counsel has not independently verified. If the District fails to comply with the covenants in the Bond Resolution or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Bond Counsel will express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Bond Resolution upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

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 thereof. 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 as to whether 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, regardless of the ultimate outcome of the audit.

### **Not Qualified Tax-Exempt Obligations**

The Bonds have not been designated as “qualified tax-exempt obligations” for financial institutions.

### **Additional Federal Income Tax Considerations**

*Collateral Tax Consequences:* Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

An “applicable corporation” (as defined in section 59(k) of the Code) may be subject to a 15 percent alternative minimum tax imposed under section 55 of the Code on its “adjusted financial statement income” (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation’s “adjusted financial statement income,” ownership of the Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also 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, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax 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.

Prospective purchasers of the Bonds should also be aware that, 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.

*Tax Accounting Treatment of Original Issue Premium:* If the issue price of any maturity of the Bonds exceeds the stated redemption price payable at maturity of such Bonds, such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

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

*Tax Accounting Treatment of Original Issue Discount:* If the issue price of any maturity of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the “OID Bonds”), the difference between (i) the amount payable at the maturity of each OID Bond, and (ii) the initial offering price to the public of such OID Bond constitutes original issue discount with respect to such OID Bond in the hands of any owner who has purchased such OID Bond in the initial public offering of the Bonds. Generally, 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 OID Bond equal to that portion of the amount of such original issue discount allocable to the period that such OID Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “—Tax Exemption,” and “—Additional Federal Income Tax Considerations—*Collateral Tax Consequences*” and “—*Tax Legislative Changes*” generally apply and should be considered in connection with the discussion in this portion of the OFFICIAL STATEMENT.

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

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the OID Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this OFFICIAL STATEMENT. Neither the District nor Bond Counsel has made any investigation or offers any assurance that the OID Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each OID Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such OID Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and 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 (ii) 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 OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of OID 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 OID Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such OID Bonds.

*Tax Legislative Changes:* Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could 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 recently enacted, proposed, pending or future legislation.

## **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 delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM" or the "Insurer"). Moody's Investors Service ("Moody's") has assigned an underlying rating of "Baa2" to the Bonds. An explanation of the ratings may be obtained from S&P and Moody's. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance" and "MUNICIPAL BOND INSURANCE."

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 or Moody's, 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" or the "Insurer") will issue its municipal bond insurance policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this OFFICIAL STATEMENT.

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

### **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](http://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. 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 June 30, 2025 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$503.3 million, \$258.1 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](http://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 presale 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 Developers, 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 Utility Tax Service, LLC, 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, storm drainage and road system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Edminster, Hinshaw, Russ & Associates, Inc. d/b/a EHRA, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as the District's Engineer. Bleyl Engineers and SpearPoint Engineering are designing and supervising the construction of the sections within Pine Lake Cove and Montgomery Oaks, respectively.

*Auditor:* The District's financial statements for the fiscal year ending April 30, 2025 were audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's April 30, 2025, financial statements.

*Appraisal District:* The information contained in this OFFICIAL STATEMENT relating to the assessed valuations has been provided by the Montgomery Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Montgomery County, including the District.

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

### **Annual Reports**

The District will provide certain financial information and operating data to the MSRB through EMMA. The information to be updated 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 "SELECTED FINANCIAL INFORMATION," except for "—Estimated Overlapping Debt," "TAX DATA," and in "APPENDIX A" (Financial Statements of the District). The District will update and provide this information within six months after the end of each fiscal year ending in or after 2026. Any financial statements so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable period to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

### **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 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 to a decision to purchase or sell Bonds; (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" 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 meanings 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 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 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 last five years, the District has complied in all material respects with its prior continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

**MISCELLANEOUS**

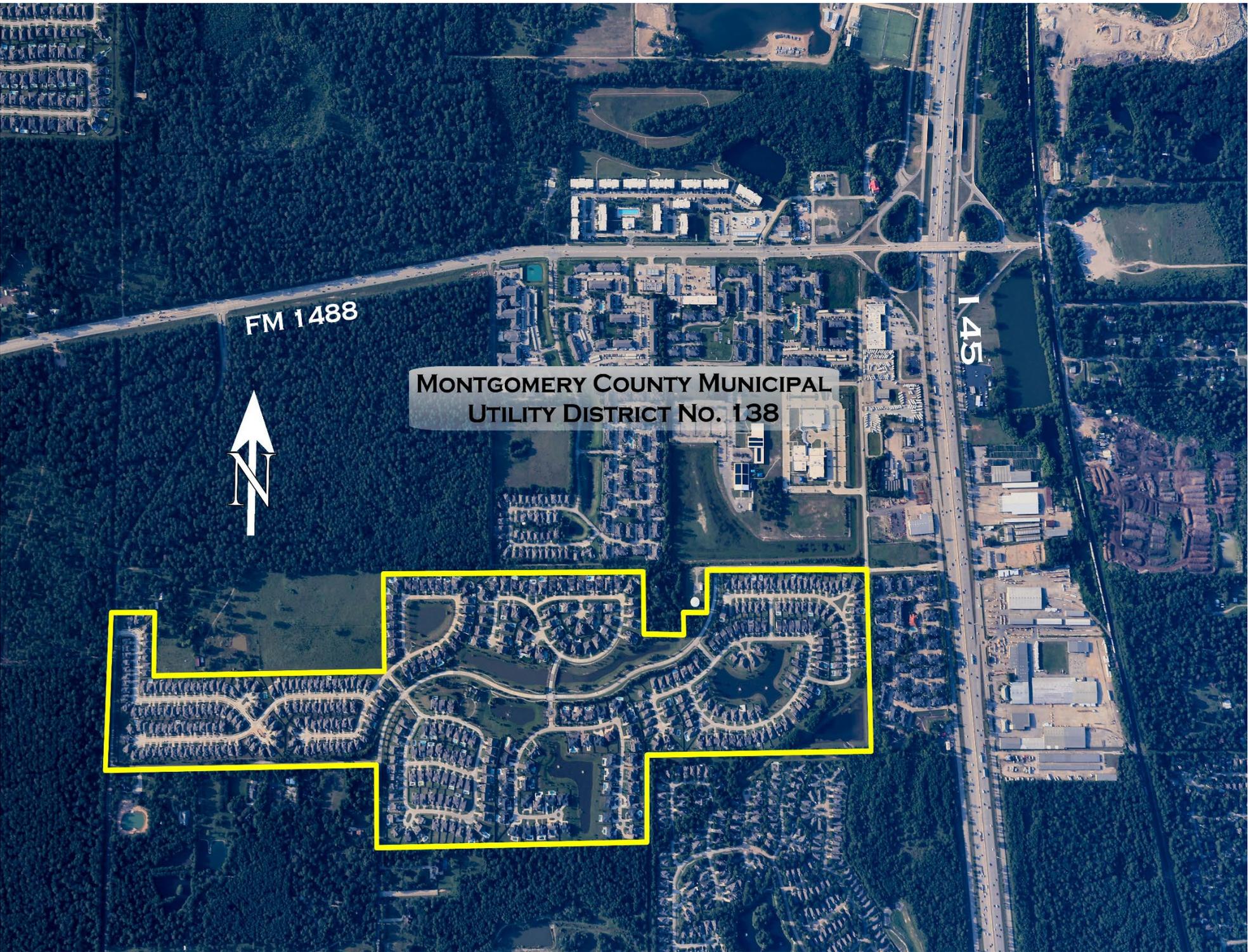
All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not 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/ Scott Burrer  
Assistant Vice President, Board of Directors

ATTEST:

/s/ M. Chance Mock  
Secretary, Board of Directors

**AERIAL LOCATION MAP**  
**(As of August 2025)**



FM 1488



MONTGOMERY COUNTY MUNICIPAL  
UTILITY DISTRICT No. 138

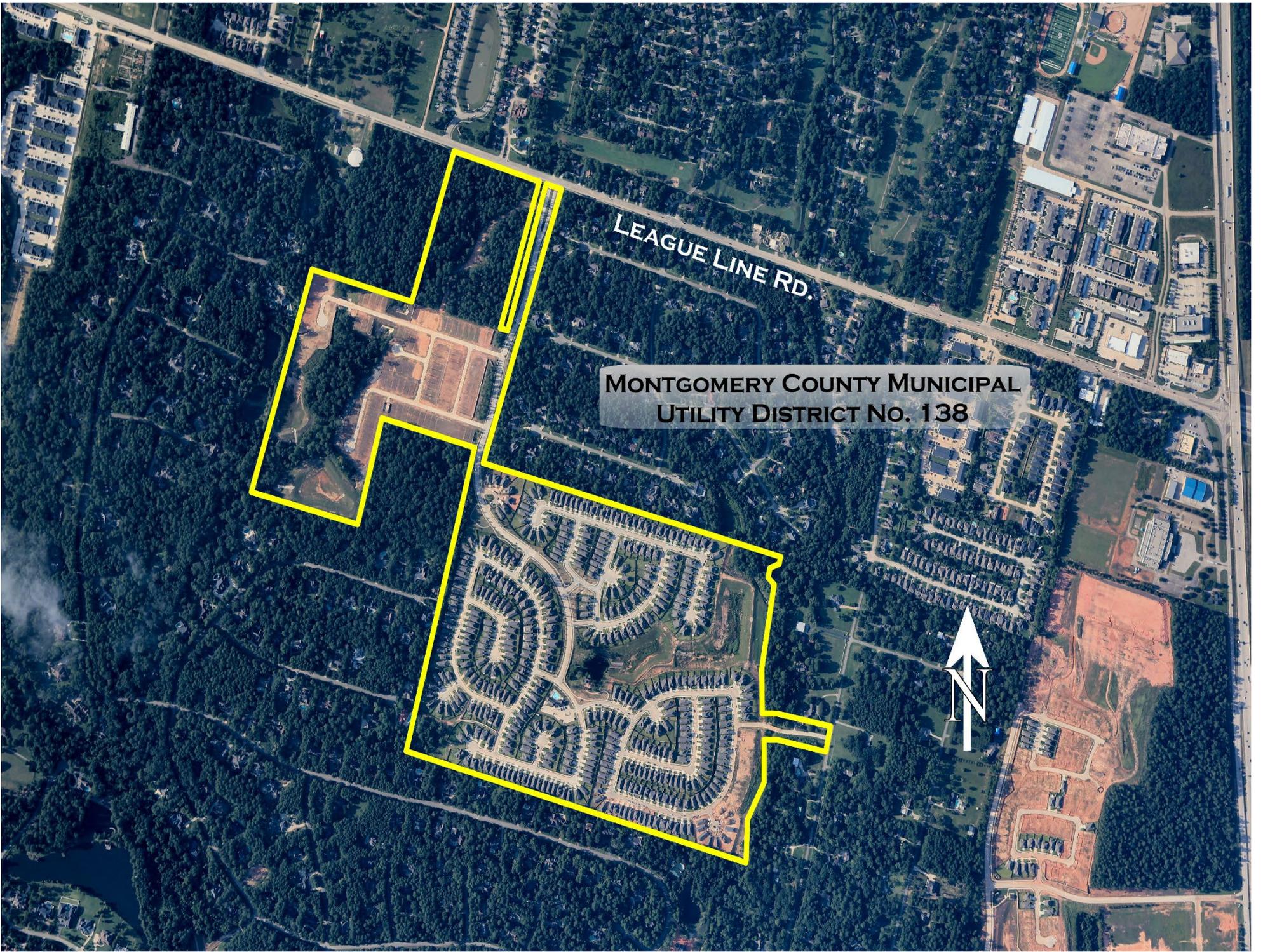
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**MONTGOMERY COUNTY MUNICIPAL  
UTILITY DISTRICT No. 138**



**AIRPORT RD.**





**MONTGOMERY COUNTY MUNICIPAL  
UTILITY DISTRICT No. 138**

LEAGUE LINE RD.



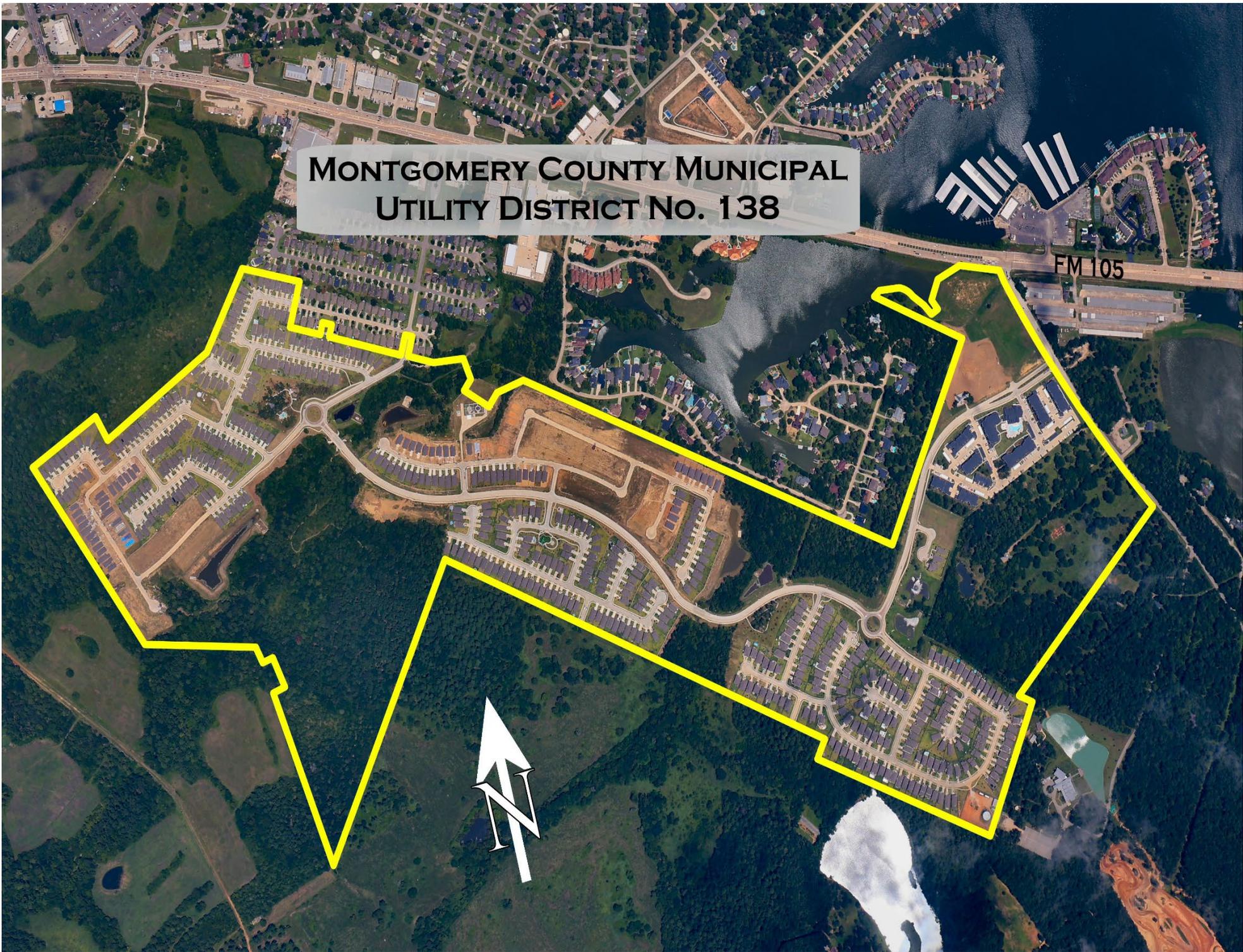
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UTILITY DISTRICT No. 138**

**LONGMIRE RD.**



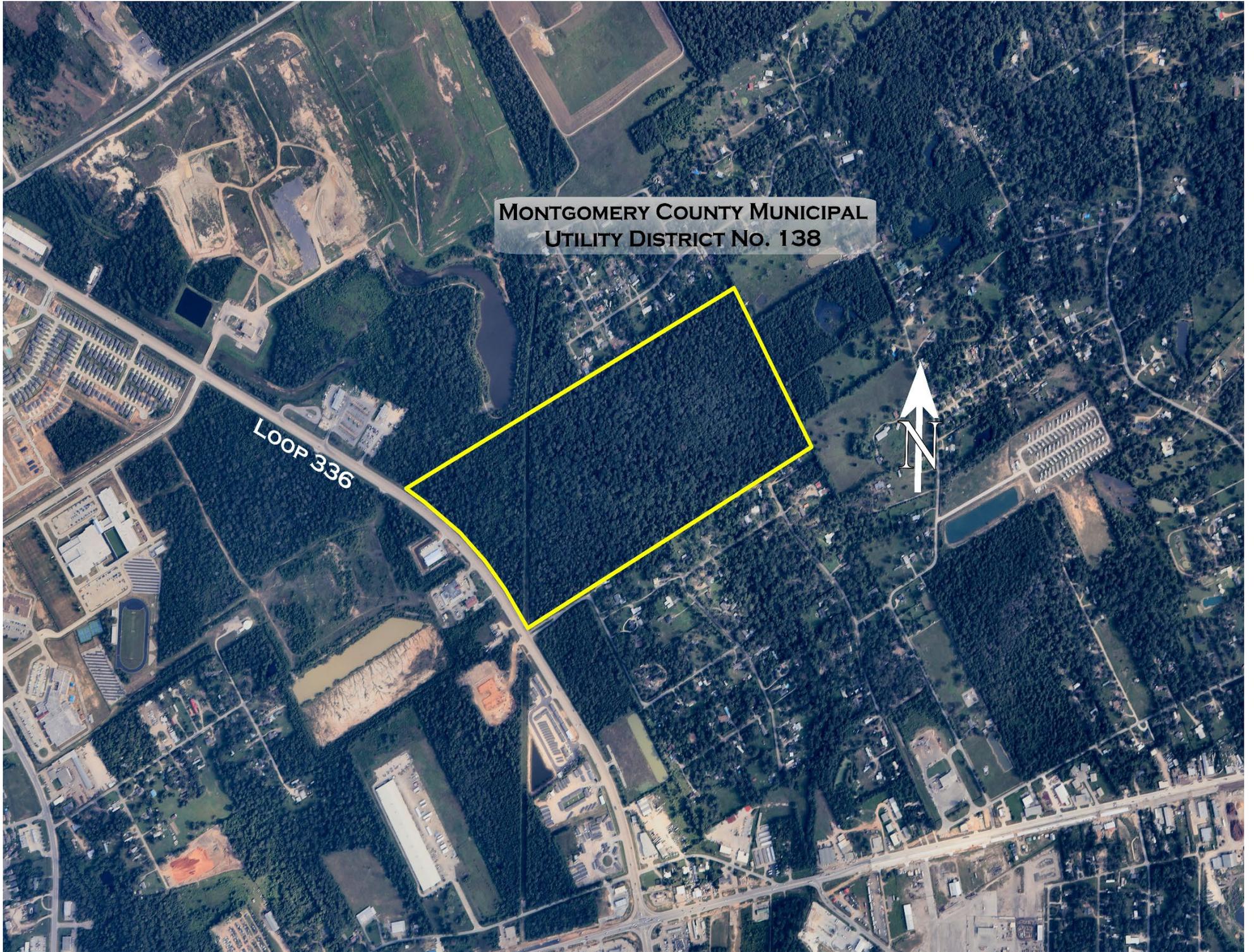
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UTILITY DISTRICT No. 138**

FM 105



**MONTGOMERY COUNTY MUNICIPAL  
UTILITY DISTRICT No. 138**

LOOP 336



**PHOTOGRAPHS OF THE DISTRICT**  
**(As of August 2025)**













**APPENDIX A**

**Financial Statement of the District for the fiscal year ended April 30, 2025**

**MONTGOMERY COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 138**

**MONTGOMERY COUNTY, TEXAS**

**FINANCIAL REPORT**

**April 30, 2025**



## Table of Contents

	<u>Schedule</u>	<u>Page</u>
Independent Auditor's Report		1
Management's Discussion and Analysis		7
<b>BASIC FINANCIAL STATEMENTS</b>		
Statement of Net Position and Governmental Funds Balance Sheet		16
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances		18
Notes to Financial Statements		21
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
Budgetary Comparison Schedule – General Fund		40
Notes to Required Supplementary Information		41
<b>TEXAS SUPPLEMENTARY INFORMATION</b>		
Services and Rates	TSI-1	44
General Fund Expenditures	TSI-2	46
Investments	TSI-3	47
Taxes Levied and Receivable	TSI-4	48
Long-Term Debt Service Requirements by Years	TSI-5	49
Change in Long-Term Bonded Debt	TSI-6	58
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	60
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	62
Board Members, Key Personnel and Consultants	TSI-8	64



# 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. 138  
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. 138 (the "District"), as of and for the year ended April 30, 2025, 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. 138, as of April 30, 2025, 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. 138  
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. 138**  
**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.

*W.C. Galt & Co, PC*

Houston, Texas  
July 14, 2025

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## **Management's Discussion and Analysis**

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**Montgomery County Municipal Utility District No. 138**  
**Management's Discussion and Analysis**  
**April 30, 2025**

**Using this Annual Report**

This section of the financial report of Montgomery County Municipal Utility District No. 138 (the "District") provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended April 30, 2025. 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.

**Montgomery County Municipal Utility District No. 138**  
**Management's Discussion and Analysis**  
**April 30, 2025**

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 April 30, 2025, was negative \$95,701,924. The District's net position is negative because the District incurs debt to construct water, sewer, drainage and road facilities which it conveys to the City of Conroe. A comparative summary of the District's overall financial position, as of April 30, 2025 and 2024, is as follows:

	2025	2024
Current and other assets	\$ 8,457,093	\$ 6,700,940
Capital assets	18,052,250	15,460,021
Total assets	<u>26,509,343</u>	<u>22,160,961</u>
Current liabilities	2,148,543	1,519,910
Long-term liabilities	120,062,724	115,966,183
Total liabilities	<u>122,211,267</u>	<u>117,486,093</u>
Net position		
Net investment in capital assets	(4,343,044)	(3,453,243)
Restricted	5,640,886	3,954,355
Unrestricted	<u>(96,999,766)</u>	<u>(95,826,244)</u>
Total net position	<u>\$ (95,701,924)</u>	<u>\$ (95,325,132)</u>

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

**Montgomery County Municipal Utility District No. 138**  
**Management's Discussion and Analysis**  
**April 30, 2025**

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 \$667,074. A comparative summary of the District's *Statement of Activities* for the past two fiscal years is as follows:

	<u>2025</u>	<u>2024</u>
Revenues		
Property taxes, penalties and interest	\$ 5,102,853	\$ 3,967,759
Water and sewer service	496,406	308,240
Other	1,257,620	1,094,388
Total revenues	<u>6,856,879</u>	<u>5,370,387</u>
Expenses		
Current service operations	1,585,324	1,456,764
Debt interest and fees	2,277,119	1,607,488
Developer interest	1,503,889	3,892,293
Debt issuance costs	962,022	2,339,564
Depreciation	318,041	271,560
Total expenses	<u>6,646,395</u>	<u>9,567,669</u>
Change in net position before other item	210,484	(4,197,282)
Other items		
Loss on disposal of capital assets		(405,999)
Transfers to other governments	<u>(877,558)</u>	<u>(18,039,526)</u>
Change in net position	(667,074)	(22,642,807)
Net position, beginning of year (2025 restated)	<u>(95,034,850)</u>	<u>(72,682,325)</u>
Net position, end of year	<u>\$ (95,701,924)</u>	<u>\$ (95,325,132)</u>

As previously noted, the District implemented GASBIG 2021-1, 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 April 30, 2025, were \$7,960,809, which consists of \$1,813,618 in the General Fund, \$5,808,764 in the Debt Service Fund and \$338,427 in the Capital Projects Fund.

**Montgomery County Municipal Utility District No. 138**  
**Management's Discussion and Analysis**  
**April 30, 2025**

*General Fund*

A comparative summary of the General Fund's financial position as of April 30, 2025 and 2024, is as follows:

	2025	2024
Total assets	<u>\$ 2,048,565</u>	<u>\$ 1,493,381</u>
Total liabilities	\$ 169,328	\$ 180,935
Total deferred inflows	65,619	30,991
Total fund balance	<u>1,813,618</u>	<u>1,281,455</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,048,565</u>	<u>\$ 1,493,381</u>

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

	2025	2024
Total revenues	\$ 2,032,380	\$ 1,822,784
Total expenditures	<u>(1,600,217)</u>	<u>(1,343,668)</u>
Revenues over expenditures	432,163	479,116
Other changes in fund balance	100,000	(55,822)
Net change in fund balance	<u>\$ 532,163</u>	<u>\$ 423,294</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, tap connection fees charged to homebuilders in the District and developer advances. 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 San Jacinto River Authority fees 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.
- Developers in the District advance funds to the District as needed to pay operating costs.

**Montgomery County Municipal Utility District No. 138**  
**Management's Discussion and Analysis**  
**April 30, 2025**

*Debt Service Fund*

A comparative summary of the Debt Service Fund's financial position as of April 30, 2025 and 2024, is as follows:

	2025	2024
Total assets	<u>\$ 6,070,101</u>	<u>\$ 4,311,840</u>
Total liabilities	\$ 2,125	\$ 2,808
Total deferred inflows	259,212	107,607
Total fund balance	<u>5,808,764</u>	<u>4,201,425</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 6,070,101</u>	<u>\$ 4,311,840</u>

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

	2025	2024
Total revenues	\$ 4,627,445	\$ 3,449,545
Total expenditures	<u>(3,260,081)</u>	<u>(1,808,250)</u>
Revenues over expenditures	1,367,364	1,641,295
Other changes in fund balance	<u>239,975</u>	<u>1,190,109</u>
Net change in fund balance	<u>\$ 1,607,339</u>	<u>\$ 2,831,404</u>

The District's financial resources in the Debt Service Fund in both the current and prior fiscal year are from property tax revenues, capitalized interest from the sale of bonds and contract tax increment payments from the City of Conroe. The difference between these financial resources and debt service requirements resulted in an increase 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 April 30, 2025 and 2024, is as follows:

	2025	2024
Total assets	<u>\$ 338,427</u>	<u>\$ 895,719</u>
Total liabilities	\$ -	\$ 1,490
Total fund balance	<u>338,427</u>	<u>894,229</u>
Total liabilities and fund balance	<u>\$ 338,427</u>	<u>\$ 895,719</u>

**Montgomery County Municipal Utility District No. 138**  
**Management's Discussion and Analysis**  
**April 30, 2025**

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

	<u>2025</u>	<u>2024</u>
Total revenues	\$ 10,822	\$ 33,570
Total expenditures	<u>(11,579,258)</u>	<u>(28,638,633)</u>
Revenues under expenditures	(11,568,436)	(28,605,063)
Other changes in fund balance	<u>11,012,634</u>	<u>29,505,098</u>
Net change in fund balance	<u>\$ (555,802)</u>	<u>\$ 900,035</u>

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 Unlimited Tax Bonds in the current fiscal year and the sale of its Series 2023 Unlimited Tax Bonds and Series 2023 Unlimited Tax Road 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 did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$175,163 greater than budgeted. The *Budgetary Comparison Schedule* on page 40 of this report provides variance information per financial statement line item.

**Capital Assets**

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers 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.

**Montgomery County Municipal Utility District No. 138**  
**Management's Discussion and Analysis**  
**April 30, 2025**

Capital assets held by the District at April 30, 2025 and 2024, are summarized as follows:

	<u>2025</u>	<u>2024</u>
Capital assets not being depreciated		
Land and improvements	\$ 12,508,768	\$ 10,493,569
Construction in progress	425,000	
	<u>12,933,768</u>	<u>10,493,569</u>
Capital assets being depreciated		
Infrastructure	2,474,347	1,948,932
Amenity improvements	4,545,933	4,545,933
	<u>7,020,280</u>	<u>6,494,865</u>
Less accumulated depreciation		
Infrastructure	(486,006)	(339,919)
Amenity improvements	(1,415,792)	(1,188,494)
	<u>(1,901,798)</u>	<u>(1,528,413)</u>
Depreciable capital assets, net	<u>5,118,482</u>	<u>4,966,452</u>
Capital assets, net	<u>\$ 18,052,250</u>	<u>\$ 15,460,021</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:

- Madeley Creek Preserve – detention basin
- Water meters
- Land acquisitions

The District and the City of Conroe (the “City”) have entered into an agreement, as amended, which obligates the District to construct water, wastewater, certain storm drainage and road facilities to serve the District and, when completed, to convey title to the facilities to the City. Detention facilities and certain other capital assets are retained by the District. For the year ended April 30, 2025, capital assets in the amount of \$877,558 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

**Long-Term Debt and Related Liabilities**

As of April 30, 2025, the District owes approximately \$62,332,724 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. As discussed in Note 7, the District has an additional commitment in the amount of \$13,319,952 for projects under construction by the developers. As noted, the District will owe its developers for these projects upon

**Montgomery County Municipal Utility District No. 138**  
**Management's Discussion and Analysis**  
**April 30, 2025**

completion of construction. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developers is trued up when the developers are reimbursed.

At April 30, 2025 and 2024, the District had total bonded debt outstanding as shown below:

Series	2025	2024
2017 Road	\$ 5,065,000	\$ 5,245,000
2018	6,210,000	6,420,000
2021 Road	4,345,000	4,480,000
2022 Road	1,760,000	1,800,000
2023	16,790,000	17,205,000
2023 Road	13,725,000	13,725,000
2024	11,385,000	
	<u>\$ 59,280,000</u>	<u>\$ 48,875,000</u>

During the current fiscal year, the District issued \$11,385,000 in unlimited tax bonds. At April 30, 2025, the District had \$135,410,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and the refunding of such bonds; \$30,600,000 for parks and recreational facilities and the refunding of such bonds; and \$62,455,000 for road improvements and the refunding of such bonds.

**Property Taxes**

The District's property tax base increased approximately \$79,802,000 for the 2025 tax year from \$564,722,144 to \$644,523,878, based on preliminary values. This increase was primarily due to new construction in the District and increased property values.

**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 fiscal year's budget to current fiscal year actual amounts for the General Fund is as follows:

	2025 Actual	2026 Budget
Total revenues	\$ 2,032,380	\$ 1,015,000
Total expenditures	(1,600,217)	(688,000)
Revenues over expenditures	432,163	327,000
Other changes in fund balance	100,000	
Net change in fund balance	532,163	327,000
Beginning fund balance	1,281,455	1,813,618
Ending fund balance	<u>\$ 1,813,618</u>	<u>\$ 2,140,618</u>

## **Basic Financial Statements**

**Montgomery County Municipal Utility District No. 138**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**April 30, 2025**

	General Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Assets</b>				
Cash	\$ 86,929	\$ 101,032	\$ 338,427	\$ 526,388
Investments	1,660,050	5,221,098		6,881,148
Taxes receivable	65,619	259,212		324,831
Customer service receivables	77,334			77,334
Internal balances	11,244	(11,244)		
Deposits	100,000			100,000
Other receivables	3,148	500,003		503,151
Prepaid items	44,241			44,241
Capital assets not being depreciated				
Capital assets, net				
Total Assets	<u>\$ 2,048,565</u>	<u>\$ 6,070,101</u>	<u>\$ 338,427</u>	<u>\$ 8,457,093</u>
<b>Liabilities</b>				
Accounts payable	\$ 37,948	\$ -	\$ -	\$ 37,948
Other payables	13,818	2,125		15,943
Customer deposits	38,125			38,125
Builder deposits	6,600			6,600
Unearned revenue	72,837			72,837
Accrued interest payable				
Due to developers				
Long-term debt				
Due within one year				
Due after one year				
Total Liabilities	<u>169,328</u>	<u>2,125</u>		<u>171,453</u>
<b>Deferred Inflows of Resources</b>				
Deferred property taxes	<u>65,619</u>	<u>259,212</u>		<u>324,831</u>
<b>Fund Balances/Net Position</b>				
<b>Fund Balances</b>				
Nonspendable	144,241			144,241
Restricted		5,808,764	338,427	6,147,191
Unassigned	<u>1,669,377</u>			<u>1,669,377</u>
Total Fund Balances	<u>1,813,618</u>	<u>5,808,764</u>	<u>338,427</u>	<u>7,960,809</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,048,565</u>	<u>\$ 6,070,101</u>	<u>\$ 338,427</u>	<u>\$ 8,457,093</u>
<b>Net Position</b>				
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>
\$ -	\$ 526,388
	6,881,148
	324,831
	77,334
	100,000
	503,151
	44,241
12,933,768	12,933,768
<u>5,118,482</u>	<u>5,118,482</u>
<u>18,052,250</u>	<u>26,509,343</u>
	37,948
	15,943
	38,125
	6,600
	72,837
427,090	427,090
62,332,724	62,332,724
1,550,000	1,550,000
<u>57,730,000</u>	<u>57,730,000</u>
<u>122,039,814</u>	<u>122,211,267</u>
<u>(324,831)</u>	
(144,241)	
(6,147,191)	
<u>(1,669,377)</u>	
<u>(7,960,809)</u>	
(4,343,044)	(4,343,044)
5,640,886	5,640,886
<u>(96,999,766)</u>	<u>(96,999,766)</u>
<u>\$ (95,701,924)</u>	<u>\$ (95,701,924)</u>

**Montgomery County Municipal Utility District No. 138**  
**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended April 30, 2025**

	General Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Revenues</b>				
Water service	\$ 191,361	\$ -	\$ -	\$ 191,361
Sewer service	305,045			305,045
Property taxes	1,005,165	3,872,034		4,877,199
Penalties and interest	4,081	35,341		39,422
San Jacinto River Authority fees	165,501			165,501
Tap connection and inspection	279,006			279,006
City of Conroe contract tax increment		500,003		500,003
City of Conroe tax rebate		46,513		46,513
Miscellaneous	24,921			24,921
Investment earnings	57,300	173,554	10,822	241,676
<b>Total Revenues</b>	<b>2,032,380</b>	<b>4,627,445</b>	<b>10,822</b>	<b>6,670,647</b>
<b>Expenditures/Expenses</b>				
Current service operations				
Purchased services	484,319			484,319
Professional fees	336,814		11,368	348,182
Contracted services	122,613	63,452		186,065
Repairs and maintenance	421,854			421,854
Utilities	38,340			38,340
Groundwater reduction fees	9,102			9,102
Administrative	53,695	11,922		65,617
Other	31,620		225	31,845
Capital outlay	101,860		9,101,754	9,203,614
Debt service				
Principal		980,000		980,000
Interest and fees		2,204,707		2,204,707
Developer interest			1,503,889	1,503,889
Debt issuance costs			962,022	962,022
Depreciation				
<b>Total Expenditures/Expenses</b>	<b>1,600,217</b>	<b>3,260,081</b>	<b>11,579,258</b>	<b>16,439,556</b>
<b>Revenues Over/(Under)</b>	<b>432,163</b>	<b>1,367,364</b>	<b>(11,568,436)</b>	<b>(9,768,909)</b>
<b>Expenditures/Expenses</b>				
<b>Other Financing Sources/Uses</b>				
Proceeds from sale of bonds		239,975	11,145,025	11,385,000
Developer advances	100,000			100,000
Repayment of operating advances			(132,391)	(132,391)
<b>Other Items</b>				
Transfers to other governments				
<b>Net Change in Fund Balances</b>	<b>532,163</b>	<b>1,607,339</b>	<b>(555,802)</b>	<b>1,583,700</b>
<b>Change in Net Position</b>				
Fund Balance/Net Position				
Beginning of the year, as reported	1,281,455	4,201,425	894,229	6,377,109
Change due to new accounting guidance (See Note 3)				
Beginning of the year, as restated	1,281,455	4,201,425	894,229	6,377,109
<b>End of the year</b>	<b>\$ 1,813,618</b>	<b>\$ 5,808,764</b>	<b>\$ 338,427</b>	<b>\$ 7,960,809</b>

See notes to basic financial statements.

<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 191,361
	305,045
155,813	5,033,012
30,419	69,841
	165,501
	279,006
	500,003
	46,513
	24,921
	<u>241,676</u>
<u>186,232</u>	<u>6,856,879</u>
	484,319
	348,182
	186,065
	421,854
	38,340
	9,102
	65,617
	31,845
(9,203,614)	
(980,000)	
72,412	2,277,119
	1,503,889
	962,022
<u>318,041</u>	<u>318,041</u>
<u>(9,793,161)</u>	<u>6,646,395</u>
9,979,393	210,484
(11,385,000)	
(100,000)	
132,391	
<u>(877,558)</u>	<u>(877,558)</u>
(1,583,700)	
(667,074)	(667,074)
(101,702,241)	(95,325,132)
<u>290,282</u>	<u>290,282</u>
<u>(101,411,959)</u>	<u>(95,034,850)</u>
<u>\$ (103,953,015)</u>	<u>\$ (95,701,924)</u>

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**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Montgomery County Municipal Utility District No. 138 (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 pursuant to Senate Bill 623 of the 83<sup>rd</sup> Session of the Texas Legislature, dated June 14, 2013, and operates in accordance with the Texas Water Code, Chapters 49 and 54, as amended, and Texas Special District Local Laws Code, Chapter 8422. The creation of the District was confirmed by voters at an election on May 10, 2014. The Board of Directors held its first meeting on February 26, 2014, and the first bonds were issued on September 21, 2017.

The District is responsible for providing water, sewer, drainage, park and recreational facilities and road facilities within the District. As further discussed in Note 11, the District transfers the water and sewer systems and road facilities to the City of Conroe for operation and maintenance upon completion of construction. 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*.

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

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

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, tap connection and inspection fees, water and sewer service fees and developer advances. 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. During the current fiscal year, financial resources also included capitalized interest from the sale of bonds. 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, drainage, park and recreational facilities and road improvements.

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.

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

*Montgomery County Municipal Utility District No. 138*  
*Notes to Financial Statements*  
*April 30, 2025*

**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 April 30, 2025, 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.

**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 that exceeds the capitalization threshold for the asset class 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 that do not exceed the threshold are not capitalized. The District's capitalization threshold for infrastructure assets is \$50,000. The threshold for subscription-based information technology arrangements (SBITAs) is \$100,000.

Capital assets are recorded at historical cost or estimated historical cost. 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.

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities and amenity improvements, are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	10-45 years
Amenity improvements	20 years

The District’s detention facilities are considered improvements to land and are non-depreciable.

**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.

**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 and deposits paid to Stanley Lake Municipal Utility District.

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.

*Montgomery County Municipal Utility District No. 138*  
*Notes to Financial Statements*  
*April 30, 2025*

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.

**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 developers; the value of capital assets transferred to the City of Conroe and the value of capital assets for which the developers have 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. 138*  
*Notes to Financial Statements*  
*April 30, 2025*

**Note 2 – Adjustment from Governmental to Government-wide Basis**

**Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position***

Total fund balance, governmental funds		\$ 7,960,809
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 19,954,048	
Less accumulated depreciation	<u>(1,901,798)</u>	
		18,052,250
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, net	(59,280,000)	
Interest payable on bonds	(427,090)	
Due to developers	<u>(62,332,724)</u>	
		(122,039,814)
Deferred inflows in the fund statements consist of receivables that are not available to pay current period expenditures. These amounts are included in revenues in the government-wide statements.		
		324,831
Total net position - governmental activities		<u><u>\$ (95,701,924)</u></u>

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

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

Net change in fund balances - total governmental funds \$ 1,583,700

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. The difference is for property taxes and related penalties and interest. 186,232

Financial reporting for capital assets varies significantly between the fund statements and the government-wide statements. Reporting at the fund level focuses on the impact of transactions on financial resources (i.e., cash), while reporting at the government-wide level seeks to allocate the cost of the acquisition of capital assets over their useful lives and to measure the economic impact of developer financing of capital assets used by the District or conveyed to other governmental entities. Differences during the current fiscal year are for the following:

Capital outlays	\$ 9,203,614	
Transfers to other governments	(877,558)	
Depreciation expense	<u>(318,041)</u>	
		8,008,015

Financial reporting for certain obligations varies between the fund statements and the government-wide statements. At the fund level, the focus is on increases and decreases of financial resources as debt is issued and repaid. At the government-wide level, the focus is on measuring and reporting on changes in the District's obligation to repay liabilities in the future. Differences during the current fiscal year are for the following:

Issuance of long term debt	(11,385,000)	
Principal payments	980,000	
Interest expense accrual	(72,412)	
Developer advances	(100,000)	
Repayment of developer advances	<u>132,391</u>	
		(10,445,021)

Change in net position of governmental activities	\$ (667,074)
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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

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

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 \$290,282 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.

##### **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.

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

As of April 30, 2025, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	\$ 1,660,050	AAAm	35 days
	Debt Service	5,221,098		
		<u>\$ 6,881,148</u>		

**TexPool**

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District’s position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

**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 April 30, 2025, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	\$ 11,244	Maintenance tax collections due to the General Fund.

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. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

**Note 6 – Capital Assets**

A summary of changes in capital assets, for the year ended April 30, 2025, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 10,493,569	\$ 2,015,199	\$ 12,508,768
Construction in progress		425,000	425,000
	<u>10,493,569</u>	<u>2,440,199</u>	<u>12,933,768</u>
Capital assets being depreciated			
Infrastructure	2,294,558	179,789	2,474,347
Amenity improvements	4,545,933		4,545,933
	<u>6,840,491</u>	<u>179,789</u>	<u>7,020,280</u>
Less accumulated depreciation			
Infrastructure	(395,263)	(90,743)	(486,006)
Amenity improvements	(1,188,494)	(227,298)	(1,415,792)
	<u>(1,583,757)</u>	<u>(318,041)</u>	<u>(1,901,798)</u>
Subtotal depreciable capital assets, net	<u>5,256,734</u>	<u>(138,252)</u>	<u>5,118,482</u>
Capital assets, net	<u>\$ 15,750,303</u>	<u>\$ 2,301,947</u>	<u>\$ 18,052,250</u>

Depreciation expense for the current fiscal year was \$318,041.

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.

**Note 7 – Due to Developers**

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, drainage, park and recreational facilities and road improvements. Under the agreements, the developers will construct facilities on behalf of the District. The developers 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 developers are reimbursed.

The District's developers have also advanced funds to the District for operating expenses.

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

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

Due to developers, beginning of year	\$ 68,071,183
Developer reimbursements	(9,101,754)
Developer funded construction and adjustments	3,395,686
Developer operating advances	100,000
Repayment of operating advances	<u>(132,391)</u>
Due to developers, end of year	<u><u>\$ 62,332,724</u></u>

In addition, the District will owe the developers \$13,319,952, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	<u>Contract Amount</u>	<u>Percent Complete</u>
Pine Lake Cove, water plant	\$ 5,316,768	92%
Madeley Creek Preserve, Sections 1 and 2 - utilities and paving	<u>8,003,184</u>	97%
	<u><u>\$ 13,319,952</u></u>	

**Note 8 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	<u><u>\$ 59,280,000</u></u>
Due within one year	<u><u>\$ 1,550,000</u></u>

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

The District's bonds payable at April 30, 2025, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2017 Road	\$ 5,065,000	\$ 6,040,000	2.00% - 4.00%	September 1, 2019/2042	September 1, March 1	September 1, 2023
2018	6,210,000	7,000,000	3.00% - 4.25%	September 1, 2021/2043	September 1, March 1	September 1, 2024
2021 Road	4,345,000	4,480,000	2.00% - 4.50%	September 1, 2024/2046	September 1, March 1	September 1, 2027
2022 Road	1,760,000	1,800,000	4.50% - 7.00%	September 1, 2024/2047	September 1, March 1	September 1, 2029
2023	16,790,000	17,205,000	4.00% - 6.00%	September 1, 2024/2047	September 1, March 1	September 1, 2029
2023 Road	13,725,000	13,725,000	5.00% - 6.375%	September 1, 2025/2049	September 1, March 1	September 1, 2030
2024	11,385,000	11,385,000	4.00% - 6.00%	March 1, 2026/2049	September 1, March 1	March 1, 2031
	<u>\$ 59,280,000</u>					

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 April 30, 2025, the District had authorized but unissued bonds in the amount of \$135,410,000 for water, sewer and drainage facilities and the refunding of such bonds; \$30,600,000 for park and recreational facilities and the refunding of such bonds; and \$62,455,000 for road improvements and the refunding of such bonds.

On December 20, 2024, the District issued its \$11,385,000 Series 2024 Unlimited Tax Bonds at a net effective interest rate of 4.268489%. Proceeds of the bonds were used (1) to reimburse developers for the following: the construction of capital assets within the District; engineering, clearing and grubbing, and other costs associated with the construction of capital assets; the acquisition of land for certain District facilities; and operating advances, (2) to pay developer interest at the net effective interest rate of the bonds and (3) to pay capitalized interest into the Debt Service Fund.

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

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

Bonds payable, beginning of year	\$ 48,875,000
Bonds issued	11,385,000
Bonds retired	(980,000)
Bonds payable, end of year	<u>\$ 59,280,000</u>

As of April 30, 2025, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2026	\$ 1,550,000	\$ 2,530,331	\$ 4,080,331
2027	1,625,000	2,451,185	4,076,185
2028	1,695,000	2,367,779	4,062,779
2029	1,770,000	2,282,111	4,052,111
2030	1,850,000	2,193,791	4,043,791
2031	1,940,000	2,106,626	4,046,626
2032	2,020,000	2,023,452	4,043,452
2033	2,125,000	1,935,113	4,060,113
2034	2,220,000	1,848,831	4,068,831
2035	2,325,000	1,757,789	4,082,789
2036	2,435,000	1,661,881	4,096,881
2037	2,540,000	1,561,344	4,101,344
2038	2,660,000	1,456,189	4,116,189
2039	2,790,000	1,345,850	4,135,850
2040	2,915,000	1,229,178	4,144,178
2041	3,055,000	1,105,774	4,160,774
2042	3,190,000	975,802	4,165,802
2043	3,345,000	839,374	4,184,374
2044	3,080,000	704,011	3,784,011
2045	2,740,000	580,212	3,320,212
2046	2,870,000	460,656	3,330,656
2047	3,005,000	334,240	3,339,240
2048	2,870,000	204,958	3,074,958
2049	1,695,000	102,500	1,797,500
2050	970,000	24,250	994,250
	<u>\$ 59,280,000</u>	<u>\$ 34,083,227</u>	<u>\$ 93,363,227</u>

**Note 9 – Property Taxes**

On May 10, 2014, 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. In addition, the voters of the District 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

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

long-term debt are without limitation as to rate or amount. As further described in Note 11, pursuant to the City of Conroe’s ordinance consenting to the District creation, the District’s total tax rate cannot exceed \$0.88 per \$100 of assessed value without City consent. Notwithstanding the foregoing, taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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 2025 fiscal year was financed through the 2024 tax levy, pursuant to which the District levied property taxes of \$0.88 per \$100 of assessed value, of which \$0.18 was allocated to maintenance and operations, \$0.405 was allocated to water, sewer and drainage debt service, and \$0.295 was allocated to road debt service. The resulting tax levy was \$4,969,555 on the adjusted taxable value of \$564,722,144.

Property taxes receivable, at April 30, 2025, consisted of the following:

Current year taxes receivable	\$ 212,751
Prior years taxes receivable	67,349
	<u>280,100</u>
Penalty and interest receivable	44,731
Property taxes receivable	<u><u>\$ 324,831</u></u>

**Note 10 – Transfers to Other Governments**

In accordance with an agreement between the District and the City of Conroe (the “City”), the District transfers all of its water, sewer, drainage and road facilities to the City (see Note 11). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended April 30, 2025, the District reported transfers to other governments in the amount of \$877,558 for projects completed and transferred to the City and developer reimbursements for projects completed in previous fiscal years.

**Note 11 – Utility and Road Agreement with the City of Conroe**

On December 12, 2013, subsequently amended July 23, 2014, and November 6, 2020, the District entered into a utility and road agreement with the City of Conroe (the “City”) for construction and extension of water distribution lines, sanitary sewer collection systems, drainage facilities, road and park facilities to serve the District. As the system is acquired or constructed, the District shall transfer the water and sewer system and roads to the City but will reserve a security interest in the utility system and provide utility service to all users in the District. The City also agreed to provide water and wastewater service to all land within the District. The term of the agreement is 40 years.

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

In addition, the City and District agreed to share certain road improvement costs. The District's prorated share of the applicable road improvements was 60%, while the City's share was 40%. The City has reimbursed the District for the City's share of certain road improvements. The road improvements, to the extent they have been accepted by the City, have been conveyed to the City subject to a one-year maintenance period.

The agreement allows the District to levy an operation and maintenance tax to pay for its day-to-day operations, provided that the District's combined debt service and operation and maintenance tax in a given year does not exceed \$0.88 per \$100 in valuation without written consent of the City. However, this provision should not be construed as a limitation on the District's authority to levy an unlimited tax rate as the District bonds will be secured by an unlimited tax pledge. However, if the District's debt service tax rate for a given year is \$0.88 or higher, then the District's operation and maintenance tax shall not exceed \$0.05 per \$100 in valuation without written consent of the City.

Water and sewer rates charged by the City to users in the District, shall be the same rates charged to similar users within the City. All revenue derived from these charges belongs to the City.

In consideration for the acquisition of the facilities, the revenues generated by the City's water, sewer and drainage tax rate shall be rebated to the District based on the District's assessed valuation. The City is obligated to make an annual payment to the District for the District's portion. During the current year, the District received \$46,513 from the City.

On November 6, 2020, the District and the City entered into a Second Amendment which addresses the development of the Pine Lake Cove subdivision ("PLC Tract"). Currently the City is unable to provide water and wastewater service to the PLC Tract and has entered into this agreement to have the District construct Central Facilities which would provide for approximately 1100 connections. The Central Facilities will be designed and constructed by the District. Once completed the Central Facilities (including a water plant, wastewater treatment plant, force main, and lift stations) will be conveyed to the City upon the City's acceptance to be maintained, owned, and operate by the City.

The District is authorized to issue bonds to finance the Central Facilities costs which will be payable from contract payments receivable by the City. Contract payments will be issued annually in an amount equal to the tax increment collected by the City on the PLC Tract. Contract Payments received by the City shall be deposited into an Infrastructure Fund and be used only to pay Central Facilities bond principal or interest payments or if bonds have not been issued, payment of the Central Facilities.

After the City levies its annual City ad valorem tax, the District will calculate the annual Contract Payment based upon the City ad valorem tax levied upon the PLC Tract. The District will send a request for remittance of the Contract Payment from the City to the District Infrastructure Fund. The Contract Payment will be made by the City by April 30<sup>th</sup> of each year beginning with tax collections resulting from tax year 2021 and every year thereafter throughout the term of the Central Facilities Bonds. During the current year, the District recognized \$500,003 in contract tax increment revenues which was received subsequent to fiscal year end.

**Note 12 – Wastewater Treatment Plant Agreement**

On April 28, 2020, as subsequently amended July 28, 2021, the District entered into a Wastewater Treatment Plant Agreement (the “Agreement”) with UA Holdings 1994-5 L.P. (“UAH”) and Clay Road 628 Development, L.P. ( the “Developer”) pursuant to which the District purchased a wastewater treatment plant (the “Sunrise Ranch Facility”) from UAH to provide interim wastewater treatment services to the PLC tract. Under the terms of the Agreement, the District agreed to provide services to an adjacent tract outside the boundaries of the District (the “Sunrise Ranch Tract”) and UAH paid the District a flat monthly fee for its share of operating and maintenance costs. During the current year, the District received \$24,000 from UAH for wastewater treatment services for the Sunrise Ranch Tract.

**Note 13 – Emergency Interconnect and Interim Water Supply Agreement**

On May 10, 2024, the District and Stanley Lake Municipal Utility District (“SLMUD”) entered into an amended and restated Emergency Interconnect and Interim Water Supply Agreement for the purchase of interim water supply and water to be used in the event of an emergency.

*Interim Water Supply*

The term of the original agreement has been extended until the District’s water well can be certified to meet TCEQ and other agency public water supply requirements, which shall not extend beyond December 31, 2026. Pursuant to the agreement, the District made a \$100,000 refundable cash deposit to SLMUD, which will be returned to the District, without interest, within 30 days of issuance of an engineer’s certificate of completion and activation of facilities to provide service to the District. However, if the District’s system is not complete and operational by December 31, 2026, the deposit will be retained by SLMUD.

Water supplied will be billed at a rate of \$6.00 per 1,000 gallons for the first 6,000,000 gallons used per month and \$7.50 per 1,000 gallons for usage exceeding that amount. In addition, the District is subject to an additional charge based on the certified taxable valuation of the tract identified in the agreement, calculated at \$0.15 per \$100 of valuation. During the current fiscal year, the District recognized expenditures of \$349,125 for water and sewer purchased services and \$135,194 for the additional charge based on the certified taxable valuation.

*Emergency Water Supply*

The Point of Connection will remain closed during normal operating conditions. In the event either party wishes to draw water through the interconnect without an emergency must only do so with written consent of the supplying district. During an emergency, the party experiencing the emergency may open the interconnect facilities and be supplied water by the other party after providing notice of the emergency to the operator and the other party. Pursuant to the agreement, each District agrees to temporary supply water to the other district in the event of an emergency at the rate outlined in the Agreement. The term of the agreement is 50 years unless terminated earlier by the parties.

**Montgomery County Municipal Utility District No. 138**  
**Notes to Financial Statements**  
**April 30, 2025**

Emergency water supplied will be billed at a rate of 2.5 times the commercial bulk water rate established by the supplying entity, for each 1,000 gallons of water provided during the period water is received. Additionally, the District will be responsible for all associated San Jacinto River Authority fees.

**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.

**Note 15 – Litigation**

On April 16, 2024, Wharton-Smith, Inc. (“WSI”) filed suit against the District and Clay Road 628 Development, L.P. (“Clay Road”), collectively the “Defendants”, for breach of contract, quantum meruit and unjust enrichment. WSI claims the Defendants failed to pay WSI for labor and materials that WSI furnished to the Pine Lake Cove Water Plant according to the terms of the construction contract. WSI claims breach of the construction contract has caused damage to WSI in the principal amount of \$509,312, for which WSI seeks to recover. Additionally, WSI seeks compensation for damages due to project delays in excess of \$195,655, for total compensation of \$704,967.

On June 25, 2025, the District, Clay Road and WSI entered into a Settlement Agreement under which Clay Road and the District agreed to pay WSI a full and final settlement amount of \$425,000, which was paid by Clay Road. While the Settlement Agreement was reached subsequent to fiscal year end, the District recognized the settlement amount in “Due to developer” during the current fiscal year because the underlying legal dispute was in existence as of the end of the current fiscal year.

**Note 16 – Subsequent Events**

On August 26, 2025, the District approved a preliminary official statement and notice of sale for its Series 2025 Unlimited Tax Bonds in the amount of \$15,470,000. The acceptance of bids and award of sale is scheduled for September 23, 2025. Proceeds of the bonds will primarily be used to reimburse developers for the infrastructure improvements within the District.

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## **Required Supplementary Information**

*Montgomery County Municipal Utility District No. 138  
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund  
 For the Year Ended April 30, 2025*

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water service	\$ -	\$ 191,361	\$ 191,361
Sewer service		305,045	305,045
Property taxes	920,000	1,005,165	85,165
Penalties and interest		4,081	4,081
San Jacinto River Authority fees		165,501	165,501
Tap connection and inspection		279,006	279,006
Miscellaneous		24,921	24,921
Investment earnings	20,000	57,300	37,300
<b>Total Revenues</b>	<u>940,000</u>	<u>2,032,380</u>	<u>1,092,380</u>
<b>Expenditures</b>			
Current service operations			
Purchased services		484,319	(484,319)
Professional fees	285,000	336,814	(51,814)
Contracted services	31,500	122,613	(91,113)
Repairs and maintenance	225,000	421,854	(196,854)
Utilities		38,340	(38,340)
Groundwater reduction fees		9,102	(9,102)
Administrative	21,500	53,695	(32,195)
Other	20,000	31,620	(11,620)
Capital outlay		101,860	(101,860)
<b>Total Expenditures</b>	<u>583,000</u>	<u>1,600,217</u>	<u>(1,017,217)</u>
<b>Revenues Over Expenditures</b>	357,000	432,163	75,163
<b>Other Financing Sources</b>			
Developer advances		100,000	100,000
<b>Net Change in Fund Balance</b>	357,000	532,163	175,163
<b>Fund Balance</b>			
Beginning of the year	1,281,455	1,281,455	
<b>End of the year</b>	<u>\$ 1,638,455</u>	<u>\$ 1,813,618</u>	<u>\$ 175,163</u>

*Montgomery County Municipal Utility District No. 138*  
*Notes to Required Supplementary Information*  
*April 30, 2025*

**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. There were no amendments to the budget during the year.

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## **Texas Supplementary Information**

**Montgomery County Municipal Utility District No. 138**  
**TSI-1. Services and Rates**  
**April 30, 2025**

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

- |   |   |  |  |
|---|---|--|--|
| <input checked="" type="checkbox"/> Retail Water  | <input type="checkbox"/> Wholesale Water      | <input 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 checked="" 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):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate (Y / N)</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>
Water:	\$ 13.14	3,000	N	\$ 2.80	3,001 to 10,000
				3.45	10,001 to 15,000
				4.10	15,001 to 25,000
				4.68	25,001 to 35,000
				8.18	35,001 to no limit
Wastewater:	\$ 43.76	3,000	N	\$ 5.33	4,000 to 10,000
SJRA Fee*:	\$ 3.00	1,000	N	\$ 3.00	1,001 to no limit
LSGCD Fee**:	\$ 0.06	1,000	N	\$ 0.06	1,001 to no limit

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \$ 63.34 Wastewater \$ 81.07

\*The District bills its customers at 100% 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:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</u>
Unmetered			x 1.0	
less than 3/4"	589	588	x 1.0	588
1"			x 2.5	
1.5"	2	2	x 5.0	10
2"	8	6	x 8.0	48
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"	2	2	x 80.0	160
10"			x 115.0	
Total Water	601	598		806
Total Wastewater	591	598	x 1.0	598

See accompanying auditor's report.

**Montgomery County Municipal Utility District No. 138**  
**TSI-1. Services and Rates**  
**April 30, 2025**

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

Gallons purchased:*	<u>68,354,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>58,002,000</u>	(Gallons billed / Gallons pumped)
		<u>84.86%</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: City of Conroe

Is the District located within a city's extra territorial jurisdiction (ETJ)?  
 Entirely  Partly  Not at all

ETJs in which the District is located: \_\_\_\_\_

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

If Yes, by whom? \_\_\_\_\_

\* Purchased from Stanley Lake Municipal Utility District

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-2. General Fund Expenditures*  
*For the Year Ended April 30, 2025*

Purchased services	<u>\$ 484,319</u>
Professional fees	
Legal	197,100
Audit	18,000
Engineering	121,714
	<u>336,814</u>
Contracted services	
Bookkeeping	36,150
Operator	85,543
Sludge haul	920
	<u>122,613</u>
Repairs and maintenance	<u>421,854</u>
Utilities	<u>38,340</u>
Groundwater reduction fees	<u>9,102</u>
Administrative	
Directors fees	12,155
Printing and office supplies	8,716
Insurance	26,294
Other	6,530
	<u>53,695</u>
Other	<u>31,620</u>
Capital outlay	<u>101,860</u>
Total expenditures	<u><u>\$ 1,600,217</u></u>

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-3. Investments*  
*April 30, 2025*

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General			
TexPool	Variable	N/A	\$ 1,603,877
TexPool	Variable	N/A	<u>56,173</u>
			<u>1,660,050</u>
Debt Service			
TexPool - Roads	Variable	N/A	1,982,451
TexPool	Variable	N/A	2,665,949
TexPool	Variable	N/A	<u>572,698</u>
			<u>5,221,098</u>
Total - All Funds			<u><u>\$ 6,881,148</u></u>

See accompanying auditor's report.

**Montgomery County Municipal Utility District No. 138**

**TSI-4. Taxes Levied and Receivable**

**April 30, 2025**

	Maintenance Taxes	WSD Debt Service Taxes	Road Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 30,991	\$ 45,050	\$ 48,250	\$ 124,291
Adjustments to Prior Year Tax Levy	23,302	17,913	22,243	63,458
Adjusted Receivable	54,293	62,963	70,493	187,749
2024 Original Tax Levy	955,427	2,149,710	1,565,838	4,670,975
Adjustments	61,073	137,415	100,092	298,580
Adjusted Tax Levy	1,016,500	2,287,125	1,665,930	4,969,555
Total to be accounted for	1,070,793	2,350,088	1,736,423	5,157,304
Tax collections:				
Current year	972,983	2,189,211	1,594,610	4,756,804
Prior years	32,191	42,152	46,057	120,400
Total Collections	1,005,174	2,231,363	1,640,667	4,877,204
Taxes Receivable, End of Year	\$ 65,619	\$ 118,725	\$ 95,756	\$ 280,100
Taxes Receivable, By Years				
2024	\$ 43,517	\$ 97,914	\$ 71,320	\$ 212,751
2023	4,753	7,119	7,583	19,455
2022	17,183	13,424	16,646	47,253
2021	166	268	207	641
Taxes Receivable, End of Year	\$ 65,619	\$ 118,725	\$ 95,756	\$ 280,100
	2024	2023	2022	2021
Property Valuations:				
Land	\$ 130,734,482	\$ 102,743,595	\$ 81,185,325	\$ 50,239,920
Improvements	472,416,526	368,419,338	169,506,411	90,305,219
Personal Property	1,054,470	27,649,384	312,195	210,255
Exemptions	(39,483,334)	(53,475,514)	(10,344,837)	(2,972,538)
Total Property Valuations	\$ 564,722,144	\$ 445,336,803	\$ 240,659,094	\$ 137,782,856
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.180	\$ 0.215	\$ 0.32	\$ 0.24
Road debt service tax rates	0.295	0.343	0.31	0.28
WSD debt service tax rates	0.405	0.322	0.25	0.36
Total Tax Rates per \$100 Valuation	\$ 0.880	\$ 0.880	\$ 0.88	\$ 0.88
Adjusted Tax Levy:	\$ 4,969,555	\$ 3,918,964	\$ 2,117,800	\$ 1,212,489
Percentage of Taxes Collected to Taxes Levied **	95.72%	99.50%	97.77%	99.95%

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 10, 2014  
(limited to \$0.88 per City of Conroe's consent ordinance)

\* Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on May 10, 2014

\*\* 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. 138*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2017 Road--by Years*  
*April 30, 2025*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2026	\$ 190,000	\$ 182,213	\$ 372,213
2027	195,000	176,438	371,438
2028	205,000	170,309	375,309
2029	215,000	163,613	378,613
2030	225,000	156,322	381,322
2031	235,000	148,413	383,413
2032	245,000	140,013	385,013
2033	255,000	131,263	386,263
2034	270,000	121,906	391,906
2035	280,000	111,938	391,938
2036	295,000	101,331	396,331
2037	305,000	90,081	395,081
2038	320,000	78,363	398,363
2039	335,000	66,081	401,081
2040	350,000	52,800	402,800
2041	365,000	38,500	403,500
2042	380,000	23,600	403,600
2043	400,000	8,000	408,000
	<u>\$ 5,065,000</u>	<u>\$ 1,961,184</u>	<u>\$ 7,026,184</u>

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2018--by Years*  
*April 30, 2025*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2026	\$ 220,000	\$ 238,100	\$ 458,100
2027	230,000	231,206	461,206
2028	240,000	223,713	463,713
2029	250,000	215,594	465,594
2030	260,000	206,825	466,825
2031	270,000	197,381	467,381
2032	280,000	187,238	467,238
2033	295,000	176,456	471,456
2034	305,000	164,825	469,825
2035	320,000	152,325	472,325
2036	330,000	139,325	469,325
2037	345,000	125,825	470,825
2038	360,000	111,725	471,725
2039	375,000	97,025	472,025
2040	390,000	81,481	471,481
2041	410,000	64,981	474,981
2042	425,000	47,494	472,494
2043	445,000	29,006	474,006
2044	460,000	9,775	469,775
	<u>\$ 6,210,000</u>	<u>\$ 2,700,300</u>	<u>\$ 8,910,300</u>

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2021 Road--by Years*  
*April 30, 2025*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2026	\$ 140,000	\$ 114,413	\$ 254,413
2027	145,000	108,000	253,000
2028	150,000	101,363	251,363
2029	150,000	96,488	246,488
2030	155,000	93,438	248,438
2031	160,000	90,288	250,288
2032	165,000	87,038	252,038
2033	175,000	83,419	258,419
2034	180,000	79,425	259,425
2035	185,000	75,088	260,088
2036	190,000	70,400	260,400
2037	195,000	65,588	260,588
2038	205,000	60,588	265,588
2039	210,000	55,269	265,269
2040	215,000	49,691	264,691
2041	225,000	43,915	268,915
2042	230,000	37,943	267,943
2043	240,000	31,624	271,624
2044	245,000	24,955	269,955
2045	255,000	18,080	273,080
2046	260,000	11,000	271,000
2047	270,000	3,712	273,712
	<u>\$ 4,345,000</u>	<u>\$ 1,401,725</u>	<u>\$ 5,746,725</u>

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2022 Road--by Years*  
*April 30, 2025*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2026	\$ 40,000	\$ 87,700	\$ 127,700
2027	45,000	84,725	129,725
2028	45,000	81,575	126,575
2029	50,000	78,250	128,250
2030	50,000	74,750	124,750
2031	55,000	71,763	126,763
2032	55,000	69,288	124,288
2033	60,000	66,700	126,700
2034	60,000	64,000	124,000
2035	65,000	61,188	126,188
2036	70,000	58,150	128,150
2037	70,000	55,000	125,000
2038	75,000	51,738	126,738
2039	80,000	48,250	128,250
2040	85,000	44,431	129,431
2041	90,000	40,275	130,275
2042	95,000	35,881	130,881
2043	100,000	31,250	131,250
2044	100,000	26,500	126,500
2045	110,000	21,513	131,513
2046	115,000	15,881	130,881
2047	120,000	9,712	129,712
2048	125,000	3,280	128,280
	<u>\$ 1,760,000</u>	<u>\$ 1,181,800</u>	<u>\$ 2,941,800</u>

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2023--by Years*  
*April 30, 2025*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2026	\$ 430,000	\$ 724,875	\$ 1,154,875
2027	450,000	698,475	1,148,475
2028	470,000	670,875	1,140,875
2029	490,000	642,075	1,132,075
2030	515,000	611,925	1,126,925
2031	540,000	585,675	1,125,675
2032	560,000	563,675	1,123,675
2033	585,000	540,775	1,125,775
2034	615,000	516,775	1,131,775
2035	640,000	491,675	1,131,675
2036	670,000	465,475	1,135,475
2037	700,000	438,075	1,138,075
2038	730,000	409,475	1,139,475
2039	765,000	379,575	1,144,575
2040	800,000	348,275	1,148,275
2041	835,000	315,053	1,150,053
2042	875,000	279,784	1,154,784
2043	910,000	242,969	1,152,969
2044	955,000	203,906	1,158,906
2045	995,000	162,469	1,157,469
2046	1,040,000	119,225	1,159,225
2047	1,085,000	73,391	1,158,391
2048	1,135,000	24,828	1,159,828
	<u>\$ 16,790,000</u>	<u>\$ 9,509,300</u>	<u>\$ 26,299,300</u>

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2023 Road--by Years*  
*April 30, 2025*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2026	\$ 270,000	\$ 703,080	\$ 973,080
2027	285,000	685,391	970,391
2028	300,000	666,744	966,744
2029	315,000	647,141	962,141
2030	330,000	626,581	956,581
2031	350,000	604,906	954,906
2032	370,000	584,500	954,500
2033	390,000	565,500	955,500
2034	410,000	545,500	955,500
2035	435,000	524,375	959,375
2036	460,000	502,000	962,000
2037	485,000	478,375	963,375
2038	510,000	453,500	963,500
2039	540,000	427,250	967,250
2040	570,000	399,500	969,500
2041	600,000	370,250	970,250
2042	630,000	339,500	969,500
2043	665,000	307,125	972,125
2044	705,000	272,875	977,875
2045	740,000	236,750	976,750
2046	780,000	198,750	978,750
2047	825,000	158,625	983,625
2048	870,000	116,250	986,250
2049	920,000	71,500	991,500
2050	970,000	24,250	994,250
	<u>\$ 13,725,000</u>	<u>\$ 10,510,218</u>	<u>\$ 24,235,218</u>

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2024--by Years*  
*April 30, 2025*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due March 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2026	\$ 260,000	\$ 479,950	\$ 739,950
2027	275,000	466,950	741,950
2028	285,000	453,200	738,200
2029	300,000	438,950	738,950
2030	315,000	423,950	738,950
2031	330,000	408,200	738,200
2032	345,000	391,700	736,700
2033	365,000	371,000	736,000
2034	380,000	356,400	736,400
2035	400,000	341,200	741,200
2036	420,000	325,200	745,200
2037	440,000	308,400	748,400
2038	460,000	290,800	750,800
2039	485,000	272,400	757,400
2040	505,000	253,000	758,000
2041	530,000	232,800	762,800
2042	555,000	211,600	766,600
2043	585,000	189,400	774,400
2044	615,000	166,000	781,000
2045	640,000	141,400	781,400
2046	675,000	115,800	790,800
2047	705,000	88,800	793,800
2048	740,000	60,600	800,600
2049	775,000	31,000	806,000
	<u>\$ 11,385,000</u>	<u>\$ 6,818,700</u>	<u>\$ 18,203,700</u>

See accompanying auditor's report.

*Montgomery County Municipal Utility District No. 138*  
*TSI-5. Long-Term Debt Service Requirements*  
*All Bonded Debt Series--by Years*  
*April 30, 2025*

Due During Fiscal Years Ending	Principal Due September 1, March 1	Interest Due September 1, March 1	Total
2026	\$ 1,550,000	\$ 2,530,331	\$ 4,080,331
2027	1,625,000	2,451,185	4,076,185
2028	1,695,000	2,367,779	4,062,779
2029	1,770,000	2,282,111	4,052,111
2030	1,850,000	2,193,791	4,043,791
2031	1,940,000	2,106,626	4,046,626
2032	2,020,000	2,023,452	4,043,452
2033	2,125,000	1,935,113	4,060,113
2034	2,220,000	1,848,831	4,068,831
2035	2,325,000	1,757,789	4,082,789
2036	2,435,000	1,661,881	4,096,881
2037	2,540,000	1,561,344	4,101,344
2038	2,660,000	1,456,189	4,116,189
2039	2,790,000	1,345,850	4,135,850
2040	2,915,000	1,229,178	4,144,178
2041	3,055,000	1,105,774	4,160,774
2042	3,190,000	975,802	4,165,802
2043	3,345,000	839,374	4,184,374
2044	3,080,000	704,011	3,784,011
2045	2,740,000	580,212	3,320,212
2046	2,870,000	460,656	3,330,656
2047	3,005,000	334,240	3,339,240
2048	2,870,000	204,958	3,074,958
2049	1,695,000	102,500	1,797,500
2050	970,000	24,250	994,250
	<u>\$ 59,280,000</u>	<u>\$ 34,083,227</u>	<u>\$ 93,363,227</u>

See accompanying auditor's report.

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*Montgomery County Municipal Utility District No. 138*  
*TSI-6. Change in Long-Term Bonded Debt*  
*April 30, 2025*

	Bond Issue			
	Series 2017 Road	Series 2018	Series 2021 Road	Series 2022 Road
Interest rate	2.00% - 4.00%	3.00% - 4.25%	2.00% - 4.50%	4.50% - 7.00%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/19 - 9/1/42	9/1/21 - 9/1/43	9/1/24 - 9/1/46	9/1/24 - 9/1/47
Beginning bonds outstanding	\$ 5,245,000	\$ 6,420,000	\$ 4,480,000	\$ 1,800,000
Bonds issued				
Bonds retired	(180,000)	(210,000)	(135,000)	(40,000)
Ending bonds outstanding	<u>\$ 5,065,000</u>	<u>\$ 6,210,000</u>	<u>\$ 4,345,000</u>	<u>\$ 1,760,000</u>
Interest paid during fiscal year	<u>\$ 187,763</u>	<u>\$ 244,550</u>	<u>\$ 120,600</u>	<u>\$ 90,500</u>
Paying agent's name and city All Series	<u>The Bank of New York Mellon Trust Company, N.A., Houston, Texas</u>			
Bond Authority:	Water, Sewer and Drainage Bonds	Park and Recreational Facilities	Road Bonds	
Amount Authorized by Voters	\$ 171,000,000	\$ 30,600,000	\$ 88,500,000	
Amount Issued	(35,590,000)		(26,045,000)	
Remaining To Be Issued	<u>\$ 135,410,000</u>	<u>\$ 30,600,000</u>	<u>\$ 62,455,000</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 April 30, 2025:	<u>\$ 5,322,130</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 3,734,529</u>

See accompanying auditor's report.

Bond Issue			
Series 2023	Series 2023 Road	Series 2024	Totals
4.00% - 6.00%	5.00% - 6.375%	4.00% - 6.00%	
9/1; 3/1	9/1; 3/1	9/1; 3/1	
9/1/24 - 9/1/47	9/1/25 - 9/1/49	3/1/26 - 3/1/49	
\$ 17,205,000	\$ 13,725,000	\$ -	\$ 48,875,000
		11,385,000	11,385,000
(415,000)			(980,000)
<u>\$ 16,790,000</u>	<u>\$ 13,725,000</u>	<u>\$ 11,385,000</u>	<u>\$ 59,280,000</u>
<u>\$ 750,225</u>	<u>\$ 711,688</u>	<u>\$ 94,657</u>	<u>\$ 2,199,983</u>

*Montgomery County Municipal Utility District No. 138*

*TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund*

*For the Last Five Fiscal Years*

	Amounts				
	2025	2024	2023	2022	2021
Revenues					
Water service	\$ 191,361	\$ 103,732	\$ 45,795	\$ 8,102	\$ -
Sewer service	305,045	204,508	111,492	28,367	
Property taxes	1,005,165	955,997	723,767	326,012	147,250
Penalties and interest	4,081	4,216	2,601	757	
San Jacinto River Authority fees	165,501	99,880	45,558	2,176	
Tap connection and inspection	279,006	394,063	289,373	404,621	
City of Conroe tax rebates**			105,534	10,433	
Miscellaneous	24,921	22,100	24,000		
Investment earnings	57,300	38,288	14,901	188	268
<b>Total Revenues</b>	<b>2,032,380</b>	<b>1,822,784</b>	<b>1,363,021</b>	<b>780,656</b>	<b>147,518</b>
Expenditures					
Current service operations					
Purchased services	484,319	172,545	87,798	5,006	
Professional fees	336,814	444,663	331,996	171,653	182,939
Contracted services	122,613	303,553	197,093	137,026	20,141
Repairs and maintenance	421,854	330,991	297,296	158,754	165,511
Utilities	38,340	31,591	22,493	15,816	
Groundwater reduction fees	9,102	7,198	2,479		
Administrative	53,695	36,029	27,968	21,611	21,177
Other	31,620	17,098	22,116	8,320	7,957
Capital outlay	101,860				
<b>Total Expenditures</b>	<b>1,600,217</b>	<b>1,343,668</b>	<b>989,239</b>	<b>518,186</b>	<b>397,725</b>
<b>Revenues Over/(Under) Expenditures</b>	<b>\$ 432,163</b>	<b>\$ 479,116</b>	<b>\$ 373,782</b>	<b>\$ 262,470</b>	<b>\$ (250,207)</b>
Total Active Retail Water Connections	598	445	256	161	N/A
Total Active Retail Wastewater Connections	598	442	250	N/A	N/A

\*Percentage is negligible

\*\* Includes water, sewer and drainage tax rebate and contract tax increment.

See accompanying auditor's report.

Percent of Fund Total Revenues

2025	2024	2023	2022	2021
9%	6%	3%	1%	
15%	11%	8%	4%	
50%	53%	54%	42%	100%
*	*	*	*	
8%	5%	3%	*	
14%	22%	21%	52%	
		8%	1%	
1%	1%	2%		
3%	2%	1%	*	*
100%	100%	100%	100%	100%

24%	9%	6%	1%	
17%	24%	24%	22%	124%
6%	17%	14%	18%	14%
21%	18%	22%	20%	112%
2%	2%	2%	2%	
*	*	*		
3%	2%	2%	3%	14%
2%	1%	2%	1%	5%
5%				
80%	73%	72%	67%	269%
20%	27%	28%	33%	(169%)

*Montgomery County Municipal Utility District No. 138*

*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund*

*For the Last Five Fiscal Years*

	Amounts				
	2025	2024	2023	2022	2021
Revenues					
Property taxes	\$ 3,872,034	\$ 2,920,858	\$ 1,272,381	\$ 878,012	\$ 756,805
Penalties and interest	35,341	22,200	10,031	7,869	3,992
City of Conroe contract tax increment	500,003	357,313			
City of Conroe tax rebate	46,513	40,228			7,599
Investment earnings	173,554	108,946	24,332	433	657
Total Revenues	<u>4,627,445</u>	<u>3,449,545</u>	<u>1,306,744</u>	<u>886,314</u>	<u>769,053</u>
Expenditures					
Administrative	75,374	45,797	34,803	23,764	17,595
Other		4,950	5,050	22	790
Debt service					
Principal	980,000	375,000	360,000	345,000	150,000
Interest and fees	2,204,707	1,382,503	607,958	465,388	473,563
Total Expenditures	<u>3,260,081</u>	<u>1,808,250</u>	<u>1,007,811</u>	<u>834,174</u>	<u>641,948</u>
Revenues Over Expenditures	<u>\$ 1,367,364</u>	<u>\$ 1,641,295</u>	<u>\$ 298,933</u>	<u>\$ 52,140</u>	<u>\$ 127,105</u>

\*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues

2025	2024	2023	2022	2021
83%	85%	97%	99%	98%
1%	1%	1%	1%	1%
11%	10%			
1%	1%			1%
4%	3%	2%	*	*
100%	100%	100%	100%	100%
2%	1%	3%	3%	2%
	*	*	*	*
21%	11%	28%	39%	20%
48%	40%	47%	53%	62%
71%	52%	78%	95%	84%
29%	48%	22%	5%	16%

**Montgomery County Municipal Utility District No. 138**  
**TSI-8. Board Members, Key Personnel and Consultants**  
**For the Year Ended April 30, 2025**

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 27, 2022  
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
Guillermo Machado	05/24 - 05/28	\$ 3,094	\$ 548	President
Sumahan Bonnerjee	05/22 - 05/26	2,652	704	Vice President
Chance Mock	05/22 - 05/26	2,873	806	Secretary
Scott Burrer	05/24 - 05/28	2,431	464	Assistant Vice President
Starsky Wallin	05/22 - 05/26	1,105	366	Assistant Secretary
<b>Consultants</b>				
Allen Boone Humphries Robinson LLP	02/14	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 216,755		
<i>Bond counsel</i>		277,200		
Myrtle Cruz, Inc.	02/22	42,306		Bookkeeper
Hays Utility North Corporation	07/21	473,606		Operator
Utility Tax Service, LLC	02/14	23,013		Tax Collector
Montgomery Central Appraisal District	Legislation	30,770		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, L.L.P.	02/14	11,170		Delinquent Tax Attorney
EHRA Engineering	02/14	175,123		Engineer
McGrath & Co., PLLC	05/14	29,250		Auditor
Masterson Advisors LLC	06/18	209,147		Financial Advisor
Stuckey's LLC	08/18	144,899		Operator/Mower

\* *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

SPECIMEN

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

200 Liberty Street, 27th floor

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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