

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 1, 2016

This Preliminary Official Statement is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon sale of the Bonds, the Official Statement will be completed and delivered to the Initial Purchaser.

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98, AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DISCUSSION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

THE BONDS HAVE BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "LEGAL MATTERS—Qualified Tax Exempt Obligations."

NEW ISSUE - BOOK-ENTRY ONLY

**Underlying Rating: Moody's "Baa1"
See "MUNICIPAL BOND RATING
AND MUNICIPAL BOND INSURANCE"**

\$4,300,000
MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
(A political subdivision of the State of Texas located within Montgomery County)
UNLIMITED TAX BONDS
SERIES 2016

Dated: November 1, 2016

Due: April 1, as shown below

Principal of the Bonds (as hereinafter defined) will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially Regions Bank, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from November 1, 2016 and will be payable on April 1 and October 1 of each year commencing April 1, 2017 (five months' interest) until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of \$5,000 each or integral multiples thereof. The Bonds will be subject to redemption prior to their maturity, as shown below.

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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due April 1	CUSIP (d)	Principal Amount (a)	Interest Rate	Initial Reoffering Yield (b)	Due April 1	CUSIP (d)	Principal Amount (a)	Interest Rate	Initial Reoffering Yield (b)
			%	%				%	%
2017		\$100,000			2029		\$100,000 (c)		
2018		100,000			2030		100,000 (c)		
2019		100,000			2031		100,000 (c)		
2020		100,000			2032		100,000 (c)		
2021		100,000			2033		100,000 (c)		
2022		100,000			2034		200,000 (c)		
2023		100,000			2035		400,000 (c)		
2024		100,000			2036		400,000 (c)		
2025		100,000 (c)			2037		400,000 (c)		
2026		100,000 (c)			2038		400,000 (c)		
2027		100,000 (c)			2039		400,000 (c)		
2028		100,000 (c)			2040		400,000 (c)		

- (a) The Initial Purchaser (as herein defined) may designate one or more maturities as term bonds. See accompanying "OFFICIAL NOTICE OF SALE" and "OFFICIAL BID FORM."
- (b) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Initial Purchaser for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from November 1, 2016 is to be added to the price.
- (c) Bonds maturing on or after April 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or, from time to time in part, on April 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (d) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

The Bonds, when issued, will constitute valid and legally binding obligations of Montgomery County Municipal Utility District No. 98 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Houston or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Bond Counsel, Houston, Texas. Delivery of the Bonds in book-entry form through DTC is expected on or about November 8, 2016.

BIDS DUE: THURSDAY, OCTOBER 6, 2016 AT 11:00 A.M., HOUSTON TIME, IN HOUSTON, TEXAS
BID AWARD: THURSDAY, OCTOBER 6, 2016 AT 12:00 P.M., HOUSTON TIME, IN HOUSTON, TEXAS

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes an Official Statement with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas, 77056 upon payment of the costs of duplication.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or 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 relevant information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in “UPDATING OF OFFICIAL STATEMENT.”

OFFICIAL STATEMENT SUMMARY

The following information 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 BONDS

The IssuerMontgomery County Municipal Utility District No. 98 (the “District”), a political subdivision of the State of Texas, is located in Montgomery County, Texas. See “THE DISTRICT.”

The Issue\$4,300,000 Montgomery County Municipal Utility District No. 98, Unlimited Tax Bonds, Series 2016, dated November 1, 2016 (the “Bonds”). The Bonds mature serially on April 1 in each year from 2017 through 2040, inclusive, in the respective amounts and accrue interest at the rates shown on the cover page hereof. Bonds maturing on or after April 1, 2025, are subject to optional redemption, in whole or, from time to time, in part, on April 1, 2024, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. If less than all the Bonds are redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be selected by the District in integral multiples of \$5,000 in any one maturity. If less than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC by lot or other customary method or in accordance with its procedures. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”

Book-Entry-OnlyThe Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”

Authority for IssuanceAt an election held within the District on November 2, 2004, voters authorized a total of \$30,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, sanitary sewer and drainage facilities to serve the District. The Bonds are the sixth installment of such authorization issued by the District. After sale of the Bonds, the District will have \$15,900,000 principal amount of unlimited tax bonds authorized but unissued for purposes of construction and acquisition of water sanitary sewer and drainage facilities. See “THE BONDS—Issuance of Additional Debt.”

Source of PaymentThe Bonds are payable from a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “THE BONDS—Source and Security for Payment.”

Use of ProceedsProceeds from the sale of the Bonds will be used to reimburse the Developers (as hereinafter defined) for (1) remaining construction costs deferred from previous bond issues for water distribution, wastewater collection and stormwater facilities serving Kings Mill, Section One; (2) clearing and grubbing to serve Kings Mill, Section Two, Section Three and Section Four; (3) water distribution, wastewater collection and storm water facilities to serve Kings Mill, Section Two, Section Four, Section Five and Section Seven; (4) engineering fees related to the aforementioned projects; and (5) wetland determination, Phase I environmental site assessment and endangered species assessment. Bond proceeds will also be used to finance developer interest and to pay certain costs related to the issuance of the Bonds. See “THE SYSTEM--Use and Distribution of Bond Proceeds.”

Payment RecordThe District has issued five series of unlimited tax bonds and one series of unlimited tax refunding bonds of which \$8,635,000 remains outstanding (the “Outstanding Bonds”). The District has never defaulted in the timely payment of principal or interest on its previously issued bonds.

Qualified Tax-Exempt

Obligations.....The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”

Bond Counsel.....Schwartz, Page & Harding, L.L.P., Bond Counsel, Houston, Texas.

EngineerEdminster, Hinshaw, Russ & Associates, Inc., Houston, Texas.

Disclosure Counsel.....Norton Rose Fulbright US LLP, Houston, Texas.

Financial Advisor.....FirstSouthwest, a Division of Hilltop Securities Inc. , Houston, Texas.

Paying Agent/RegistrarRegions Bank, Houston, Texas.

*Municipal Bond Insurance
and*

Municipal Bond Rating.....Application has been made to Moody’s Investors Service (“Moody’s”) for an underlying rating on the Bonds, and Moody’s has assigned an underlying rating of “Baa1” to the Bonds. Application has also been made to various municipal bond insurance companies for qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option of the Initial Purchaser (as defined herein) at the Initial Purchaser’s expense. The rating fee of Moody’s will be paid for by the District; payment of any other rating fee will be the responsibility of the Initial Purchaser. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”

Investment

ConsiderationsThe purchase and ownership of the Bonds are subject to special investment considerations, and all prospective purchasers are urged to examine carefully the entire Official Statement with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

THE DISTRICT

DescriptionThe District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (the “Commission”), dated July 30, 2004. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 238 acres of land.

Location.....The District is located in southeastern Montgomery County, south of North Park Drive and east of US Highway 59. The District is located approximately 25 miles northeast of the central downtown business district of the City of Houston. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the New Caney Independent School District. See “THE DISTRICT.”

Status of DevelopmentApproximately 148 acres have been developed into Kings Mill, Section 1 through 9 which encompasses 740 lots. As of June 16, 2016, 665 homes were completed and occupied, 3 homes were completed but unoccupied, 42 homes were listed in a builder’s name and 30 developed lots were available for home construction.

Gehan Homes is currently building homes in Kings Mill, Sections 7 and 9 which range in price from approximately \$213,000 to \$252,000.

Westin Homes is currently building homes in Kings Mill, Sections 7 and 8 which range in price from \$238,000 to \$310,000.

Friendswood Development Company, LLC (“FDC”) owns 25 acres of land in the District which have water, sewer and drainage facilities constructed to serve the commercial development. The storm collection system to serve a 1.22 acre tract of land within the 25 acres is under construction on which a Dairy Queen will be constructed. The Dairy Queen will be the first above-ground improvements to be constructed on the FDC tract.

There are 38 acres that remain to be developed and approximately 29 acres that are undevelopable, which includes detention sites, plant sites and parks and open spaces. There are also approximately 23.8 acres of land which have trunk facilities available, but have no above-ground improvements constructed. See “THE DISTRICT—Status of Development.”

Developers.....The developers of Kings Mill are (1) K. Mill Development, Ltd. (“K. Mill Development”), a Texas limited partnership with Starwood Development, LLC as its general partner, and (2) K-Mill at Russell Palmer Ltd. (“K-Mill at Russell Palmer”), a Texas limited partnership with Starwood Residential Management, LLC as its general partner and Starwood Residential Development, LLC as its Manager. K. Mill Development has developed Kings Mill, Section 1 and constructed the offsite lift station and force main and water line to serve Kings Mill, Section 1. K-Mill at Russell Palmer has developed Kings Mill Sections 2 through 9 and owns approximately 38 acres of remaining developable acreage in the District.

FDC owns approximately 25 acres of land in the District which was annexed into the District in February, 2013 and which has been developed for commercial purposes. See “THE DEVELOPERS.”

SELECTED FINANCIAL INFORMATION

2016 Certified Assessed Valuation.....	\$153,014,611	(a)
June 1, 2016 Estimated Assessed Valuation	\$162,447,473	(b)
Gross Direct Debt Outstanding	\$12,935,000	(c)
Estimated Overlapping Debt.....	<u>13,758,968</u>	
Total Gross Direct Debt and Estimated Overlapping Debt	<u>\$26,693,968</u>	
Ratios of Gross Direct Debt to:		
2016 Certified Assessed Valuation.....	8.45%	
June 1, 2016 Estimated Assessed Valuation	7.96%	
Ratios of Gross Direct and Estimated Overlapping Debt to:		
2016 Certified Assessed Valuation.....	17.45%	
June 1, 2016 Estimated Assessed Valuation	16.43%	
Operating Funds Available as of September 1, 2016.....	\$1,638,320	
Debt Service Funds as of September 1, 2016.....	\$1,083,027	
2015 Debt Service Tax Rate	\$0.710	(d)
2015 Maintenance Tax Rate	<u>0.455</u>	
Total.....	<u>\$1.165</u>	(e)
Average Annual Debt Service Requirement (2017-2040)	\$827,837	(f)
Maximum Annual Debt Service Requirement (2019)	\$924,411	(f)
Tax Rates Required to Pay Average Annual Debt Service (2017-2040) at a 95% Collection Rate		
Based upon 2016 Certified Assessed Valuation	\$0.57	
Based upon June 1, 2016 Estimated Assessed Valuation.....	\$0.54	
Tax Rates Required to Pay Maximum Annual Debt Service (2019) at a 95% Collection Rate		
Based upon 2016 Certified Assessed Valuation.....	\$0.64	
Based upon June 1, 2016 Estimated Assessed Valuation.....	\$0.60	
Status of Development as of June 16, 2016:		
Completed and Occupied Single Family Homes	665	
Builder Connections	42	
Vacant Homes.....	3	
Vacant Developed Lots.....	30	
Commercial Accounts.....	2	
Estimated Population.....	2,327	(g)

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- (a) The Montgomery Central Appraisal District (the "Appraisal District") has certified \$146,741,492 of value for 2016. There are properties that are uncertified and the Appraisal District has valued the uncertified properties at \$7,380,140. The value above includes the certified value plus 85% of the uncertified value. See "TAX PROCEDURES."
- (b) As estimated by the Appraisal District as of June 1, 2016 for information purposes only. The certified 2016 assessed valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2016 to June 1, 2016. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the basis for any tax levy by the District. See "TAX PROCEDURES."
- (c) After giving effect to issuance of the Bonds.
- (d) In connection with its approval, the Texas Commission on Environmental Quality (the "Commission") has concluded that a debt service tax in the initial year after the Bonds are issued (2017) of not less than \$0.65 per \$100 of assessed valuation would be sufficient to pay the debt service on the Bonds and the Outstanding Bonds.
- (e) The District has indicated its intent to levy a tax rate of \$0.65 per \$100 of assessed valuation for debt service and \$0.485 per \$100 of assessed valuation for maintenance purposes for a total tax rate of \$1.135.
- (f) See "DEBT SERVICE REQUIREMENTS."
- (g) Based upon 3.5 persons per occupied single-family residence.

PRELIMINARY OFFICIAL STATEMENT

\$4,300,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98 *(A political subdivision of the State of Texas located within Montgomery County)*

UNLIMITED TAX BONDS, SERIES 2016

This Official Statement provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 98 (the "District") of its \$4,300,000 Unlimited Tax Bonds, Series 2016 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, an order of the Texas Commission on Environmental Quality (the "Commission") authorizing the sale of the Bonds, an election held within the boundaries of the District, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District and the developers in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of documents may be obtained from the District c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of the cost of duplication.

THE BONDS

General

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

Description

The Bonds will be dated November 1, 2016, with interest payable on April 1, 2017, and on each October 1 and April 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from November 1, 2016, and thereafter, from the most recent Interest Payment Date. The Bonds mature on April 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At an election held within the District on November 2, 2004, voters of the District authorized a total of \$30,000,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The Bonds constitute the sixth issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$15,900,000 in principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the Commission dated August 19, 2016.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAX PROCEDURES". Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City of Houston, Montgomery County, the State of Texas, or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the establishment of the District's Construction Fund and the District's Bond Fund (the "Bond Fund") created and established pursuant to the orders of the District authorizing the issuance of the Outstanding Bonds. Accrued interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the Bond Fund. All remaining proceeds of the Bonds will be deposited in the Construction Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds, the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds, the Bonds and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Bond Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Outstanding Bonds, the Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Record Date

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on and after April 1, 2025, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2024, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. 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.

Method of Payment of Principal and Interest

The Board has appointed Regions Bank, Houston, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Registration

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

Replacement of Paying Agent/Registrar

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$30,000,000 principal amount of unlimited tax bonds for the purpose of purchasing or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$15,900,000 principal amount of unlimited tax bonds authorized but unissued for said facilities. The District's voters have also authorized a total of \$30,000,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has \$29,870,000 principal amount of unlimited tax refunding bonds authorized but unissued.

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

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

Financing Road Facilities

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for “road powers” or calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

Financing Recreational Facilities

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

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the Commission in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

The District has not recently considered calling an election for such purposes but could consider doing so in the future.

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

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston without the District's consent, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever annex the District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City of Houston, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See "THE DISTRICT-Strategic Partnership Agreement."

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See "INVESTMENT CONSIDERATIONS-Registered Owners' Remedies."

Defeasance

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

Chapter 1207 currently provides that the Bonds may be defeased by a deposit with the Comptroller of Public Accounts of the State of Texas or a Paying Agent of the District which may be invested only in obligations that mature and bear interest payable at times and in amounts sufficient to provide for the scheduled payment or redemption of the Bonds. The deposit may be invested and reinvested in (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, (2) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, or (3) noncallable obligations of a state or 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 defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor take any responsibility for the accuracy or completeness thereof.

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities 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 Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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 neither the District nor the Initial Purchaser take any responsibility for the accuracy thereof.

THE DISTRICT

General

The District is a municipal utility district created by an order of the Commission, dated July 30, 2004, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston (except as described below under “Strategic Partnership Agreement”), is subject to the continuing supervisory jurisdiction of the Commission.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, separately or jointly with one or more conservation and reclamation districts, municipalities or other political subdivisions, after approval by the Commission and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to the granting of road powers by the Commission and certain limitations, develop and finance roads. See “THE BONDS-Issuance of Additional Debt” and “Financing Recreational Facilities” and “Financing Road Facilities”.

The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to finance the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and fire-fighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston and filed in the real property records of Montgomery County. The District is also required to obtain certain Commission approvals prior to acquiring, constructing and financing road and fire-fighting facilities, as well as voter approval of the issuance of bonds for said purposes and/or for the purposes of financing recreational facilities. Construction and operation of the District’s drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See “THE SYSTEM.”

Strategic Partnership Agreement

The District and the City of Houston (the “City”) have entered into a Strategic Partnership Agreement dated November 22, 2013 (the “SPA”) pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a “limited purpose annexation” for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for “full purposes” for at least thirty (30) years from the effective date of the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules.

As of the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. Such portion includes primarily the 25 acres of potential retail and commercial development within the District. The City pays to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (the “Sales Tax Revenue”). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds or the Outstanding Bonds.

Description and Location

The District is located in southeastern Montgomery County, south of North Park Drive and east of US Highway 59. The District is located approximately 25 miles northeast of the central downtown business district of the City of Houston. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the New Caney Independent School District. The District consists of approximately 238 acres of land.

Residential Development

Approximately 148 acres have been developed into Kings Mill, Sections 1 through 9 which encompasses 740 lots. As of June 16, 2016, 665 homes were completed and occupied, 3 homes were completed but unoccupied, 42 homes were listed in a builder’s name and 30 developed lots were available for home construction.

Commercial Development

Friendswood Development Company (“FDC”) owns 25 acres of land in the District which have water, sewer and drainage facilities constructed to serve a commercial development. The storm water collection system to serve a 1.2 acre tract of land within the 25 acres is currently under construction. A Dairy Queen will be constructed on such tract once the private utilities are completed.

Homebuilding Program

Gehan Homes is currently building homes in Kings Mill, Sections 7, and 9 which range in price from approximately \$213,000 to \$252,000.

Westin Homes is currently building homes in Kings Mill, Sections 7, and 8 which range in price from \$238,000 to \$310,000.

Undeveloped Acreage

There are approximately 38 acres that remain to be developed and approximately 29 acres that are undevelopable, which includes detention facilities, plant sites and parks and open spaces. There are also approximately 23.8 acres of land which have trunk facilities available, but have no above-ground improvements constructed.

MANAGEMENT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms in May of even numbered years only. All of the Board members own property in the District. 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>
Andy Rodriguez, Jr.	President	May 2018
Anthony Dainard	Vice President	May 2020
Kenneth C. Wolf	Secretary	May 2018
Garth Howard	Assistant Secretary	May 2020

The District has no full-time employees but instead contracts with the entities described below for professional services:

Tax Assessor/Collector

Land and improvements in the District are being appraised for taxation by the Montgomery Central Appraisal District. The District contracts with Wheeler & Associates, Inc. to act as Tax Assessor/Collector for the District.

System Operator

The District has engaged Municipal Operations & Consulting, Inc. to operate and maintain the District’s system.

Bookkeeper

The District contracts with Municipal Accounts & Consulting, L.P. for bookkeeping services for the District.

Engineer

The District’s consulting engineer is Edminster, Hinshaw, Russ & Associates, Inc. (the “Engineer”).

Auditor

The District’s financial statements for the fiscal year ended February 28, 2016, were audited by McCall Gibson Swedlund Barfoot PLLC. See “APPENDIX A” for a copy of the District’s February 28, 2016, audited financial statements.

Bond Counsel and General Counsel

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

Disclosure Counsel

Norton Rose Fulbright US LLP, Houston, Texas, (“Disclosure Counsel”) has been engaged by the District to serve as disclosure counsel. Fees for services rendered by Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Financial Advisor

First Southwest, a Division of Hilltop Securities Inc , (the “Financial Advisor”) serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon sale and delivery of the Bonds.

THE DEVELOPERS

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

K. Mill Development, Ltd.

The developer of Kings Mill, Section 1 and the offsite lift station and force main and water line to serve Kings Mill, Section 1 is K. Mill Development, Ltd. (“K. Mill Development”), a Texas limited partnership with Starwood Development, LLC as its general partner.

K. Mill Development was created for the sole purpose of developing its land in the District and owns no additional land in the District.

K-Mill at Russell Palmer, Ltd.

K-Mill at Russell Palmer, Ltd. (“K-Mill at Russell Palmer”) is the developer of Kings Mill Sections 2 through 9. K-Mill at Russell Palmer is a Texas limited partnership with Starwood Residential Management, LLC as its general partner and Starwood Residential Development LLC as its Manager. K-Mill at Russell Palmer was created for the sole purpose of developing the land it owns in the District. K-Mill at Russell Palmer owns an additional approximately 38 acres in the District.

Development Management

Sam Yager Properties Ltd. is managing development of the property in the District pursuant to contracts with K. Mill Development and K. Mill at Russell Palmer.

Friendswood Development Company, LLC

Friendswood Development Company, LLC (“FDC”) owns approximately 25 acres of land in the District which has been developed for commercial purposes. The storm water collection system to serve a 1.2 acre tract out of the 25 acres is under construction to serve a Dairy Queen restaurant.

K-Mill Development, K-Mill at Russell Palmer and FDC are collectively referred to herein as the “Developers.”

THE SYSTEM

Regulation

According to the Engineer, the District's water distribution, wastewater collection, and storm drainage facilities (collectively, the "System") have been designed in accordance with accepted engineering practices and the then current requirements of various agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction and operation of the System was to be accomplished in accordance with the standards and specifications and requirements of such entities and is subject to inspection by each such entity. The Commission exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the Commission and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Montgomery County Flood Control District, Montgomery County and, in some instances, the Commission. Montgomery County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the wastewater treatment plant which provides service to the District beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the District's Engineer.

Water Distribution and Sanitary Sewer Collection and Drainage System

The District's System includes water, sanitary sewer and drainage facilities to serve the subdivisions and land described under the section "THE DISTRICT—Residential Development and"—Commercial Development."

Water Supply

The District receives potable water from the City of Houston pursuant to a Treated Water Supply Contract (the "Water Agreement"). The District has available water supply capacity pursuant to the Water Agreement in an amount sufficient to serve current development within the District, and has the option to reserve additional capacity to serve future development as needed.

The District has a water re-pressurization plant, which includes a 280,000 gallon ground storage tank, a 10,000 gallon and a 20,000 gallon (30,000 gallon total) hydro-pneumatic tank, and booster pumps.

The District's water supply system is sufficient to serve 1,125 equivalent single family connections. The District is currently serving 716 equivalent single family connections.

Subsidence District Requirements

The District is within the boundaries of the Lone Star Groundwater Conservation District (the "Conservation District") which was created by the Texas legislature to conserve, protect and enhance the groundwater resources of Montgomery County. The Conservation District has adopted rules and a regulatory plan for the conservation, preservation, protection, recharge and prevention of waste of groundwater, groundwater reservoirs or their subdivisions and to control subsidence caused by the withdrawal of groundwater from those groundwater resources or their subdivisions. The District receives its water supply from the City of Houston and therefore is not subject to the rules of the Conservation District.

Wastewater Treatment

Wastewater treatment for the District is provided by the City of Houston's Kingwood West Wastewater Treatment Plant, pursuant to a Sanitary Sewer Service Agreement with the City of Houston. The District has the right to capacity in the amount of 315,000 gallons per day or 1,260 equivalent single-family connections (at 250 gallons per day per equivalent single-family connection).

Flood Plain

No areas in the District are located within the 100-year flood plain.

Use and Distribution of Bond Proceeds

The estimated use and distribution of Bond proceeds, as approved by the Commission, is set forth below. From the proceeds to be received from sale of the Bonds, \$3,084,370 is estimated to be required for construction costs, and \$1,215,630 is estimated to be required for non-construction costs.

Construction Costs

Water, wastewater, drainage, clearing and storm water collection system to serve Kings Mill Section 1	\$1,554,690
Clearing and grubbing and storm water pollution prevention plan to serve Kings Mill Section 2 and Section 3	38,110
Water, wastewater, drainage, and storm water collection system to serve Kings Mill Section 2	442,531
Clearing and grubbing and storm water pollution prevention plan to serve Kings Mill Section 4	8,561
Water, sewer, drainage, and storm water collection system to serve Kings Mill Section 4	297,598
Water, sewer, drainage, storm water collection system and pollution prevention plan to serve Kings Mill Section 5	93,876
Water, sewer, drainage, storm water collection system and pollution prevention plan to serve Kings Mill Section 7	299,809
Storm Water Compliance	76,818
Special Reports.....	5,270
Engineering	267,107
Total Construction Cost.....	\$3,084,370

Non-construction Costs

Legal Fees	\$ 117,500
Financial Advisory Fees	82,750
Bond Discount (estimated at 3%).....	129,000
Developer Interest	782,637
Bond Issuance Expense and Administration	45,443
Bond Application Report.....	43,250
Attorney General's Fee	4,300
Commission Fee	10,750
Total Non-construction Costs.....	\$1,215,630
TOTAL BOND ISSUE.....	\$4,300,000

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

Future Debt

With the consent of the District, the Developers have financed and not been fully reimbursed for the design and construction of water, sanitary sewer and drainage facilities to serve Kings Mill, Sections 3, 7 and 9 and the commercial tract owned by FDC, as well as other District facilities. After the issuance of the Bonds, the costs of such facilities that remain to be reimbursed are approximately \$1,700,000 to K-Mill at Russell Palmer and \$1,850,000 to FDC. It is anticipated that additional bonds will be issued in the future to reimburse the Developers for such facilities to serve the undeveloped acreage within the District, to obtain additionally required wastewater treatment plant capacity and/or water plant capacity, if any, and to construct other District facilities. The District can make no representation that any additional development will occur within the District. The Engineer has stated that the District's authorized but unissued bonds should be adequate, under present land use projections, to finance such improvements.

FINANCIAL STATEMENT

2016 Certified Assessed Valuation.....	\$153,014,611	(a)
June 1, 2016 Estimated Taxable Assessed Valuation	\$162,447,473	(b)
Gross Direct Debt Outstanding	\$12,935,000	(c)
Estimated Overlapping Debt.....	13,758,968	
Total Gross Direct Debt and Estimated Overlapping Debt	<u>\$26,693,968</u>	

Ratios of Gross Direct Debt to:

2016 Certified Assessed Valuation.....	8.45%
June 1, 2016 Estimated Taxable Assessed Valuation	7.96%

Ratios of Gross Direct Debt and Estimated Overlapping Debt to:

2016 Certified Assessed Valuation.....	17.45%
June 1, 2016 Estimated Taxable Assessed Valuation	16.43%

Area of District – 238 Acres
Estimated 2016 Population – 2,327 (d)

- (a) The Montgomery Central Appraisal District (the “Appraisal District”) has certified \$146,741,492 of taxable value for 2016. There are properties that are uncertified. The Appraisal District has valued the uncertified properties at \$7,380,140. The value above includes the certified value plus 85% of the uncertified value. See “TAX PROCEDURES.”
- (b) As estimated by the Appraisal District as of June 1, 2016 for information purposes only. The certified 2016 assessed valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2016 to June 1, 2016. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the basis for any tax levy by the District. See “TAX PROCEDURES.”
- (c) After giving effect to issuance of the Bonds.
- (d) Based upon 3.5 persons per occupied single-family residence.

Cash and Investment Balances (unaudited as of September 1, 2016)

Operating Fund	Cash and Temporary Investments	\$1,638,320
Debt Service Fund	Cash and Temporary Investments	1,083,027
Construction Fund	Cash and Temporary Investments	133,297

District Investment Policy

The policy of the District is to invest District funds only in instruments which further the following investment objectives of the District stated in order of importance: (1) preservation and safety of principal; (2) liquidity; and (3) yield. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

Outstanding Bonds

The District has previously issued a total of \$9,800,000 principal amount of unlimited tax bonds and \$2,350,000 principal amount of unlimited tax refunding bonds. The District currently has \$8,635,000 principal amount of bonds outstanding (the “Outstanding Bonds”). The following table lists the original principal amount of the Outstanding Bonds and principal amount of the Outstanding Bonds.

Series	Original Principal Amount	Principal Currently Outstanding
Unlimited Tax Bonds, Series 2006	\$ 2,890,000	\$ -
Unlimited Tax Bonds, Series 2010	1,125,000	925,000
Unlimited Tax Bonds, Series 2011	1,600,000	1,475,000
Unlimited Tax Bonds, Series 2013	1,385,000	1,280,000
Unlimited Tax Refunding Bonds, Series 2015	2,350,000	2,210,000
Unlimited Tax Bonds, Series 2015A	2,800,000	2,745,000
18 Total	\$ 12,150,000	\$ 8,635,000

WATER AND SEWER OPERATIONS

General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Revenues from the operation of the District's water and sewer system are not pledged to payment of debt service on the Bonds. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements. Reference is made to such records and statements for further and more complete information.

	Fiscal Year Ended February 28					
	3/1/16 to 7/31/16 (a)	2016	2015	2014	2013	2012
REVENUES:						
Property Taxes	\$ 31,858	\$ 564,199	\$ 456,471	\$ 367,299	\$ 319,728	\$ 275,513
Service Revenue	339,274	748,554	606,849	563,091	499,051	475,166
Penalty and Interest	11,879	31,489	32,491	28,354	21,826	19,866
Tap connection and inspection fees	33,450	92,325	70,725	69,375	35,850	52,750
Interest on Deposits	1,308	4,744	3,424	2,899	1,012	395
Other Income	1,700	3,435	2,623	2,578	2,035	-
TOTAL REVENUES	\$ 419,469	\$ 1,444,746	\$ 1,172,583	\$ 1,033,596	\$ 879,503	\$ 823,690
EXPENDITURES:						
Professional Fees	\$ 41,581	\$ 93,860	\$ 90,574	\$ 83,473	\$ 70,720	\$ 74,314
Purchased Services	69,802	149,204	404,672	383,430	340,335	332,327
Contracted Services	145,717	521,329	132,659	116,746	102,470	87,381
Utilities	3,552	9,290	10,602	8,170	7,775	6,376
Repairs and Maintenance	52,038	133,818	104,684	73,938	56,536	66,300
Tap connections					-	21,800
Capital outlay	15,344	137,965			15,171	5,000
Other Expenditures	43,550	105,895	87,652	91,436	64,080	49,269
TOTAL EXPENDITURES	\$ 371,584	\$ 1,151,361	\$ 830,843	\$ 757,193	\$ 657,088	\$ 642,767
NET REVENUES	\$ 47,885	\$ 293,385	\$ 341,740	\$ 276,403	\$ 222,415	\$ 180,923
OTHER FINANCING SOURCES						
Interfund Transfer				\$ 15,171	\$ -	
FUND BALANCE,						
BEGINNING OF PERIOD	\$ 1,585,157	\$ 1,291,772	\$ 950,032	\$ 658,458	\$ 436,043	\$ 255,120
FUND BALANCE, END OF PERIOD	\$ 1,633,042	\$ 1,585,157	\$ 1,291,772	\$ 950,032	\$ 658,458	\$ 436,043

(a) Unaudited. Provided by District's bookkeeper.

ESTIMATED OVERLAPPING DEBT STATEMENT

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council or other publicly available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance, and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Montgomery County	\$426,470,000	0.21%	\$895,587
Lone Star College System.....	568,335,000	0.06%	341,001
New Caney ISD	354,741,645	3.53%	12,522,380
Total Estimated Overlapping Debt.....			\$13,758,968
The District's Total Direct Debt			<u>12,935,000</u>
Total Direct and Estimated Overlapping Debt			\$26,693,968
Direct and Estimated Overlapping Debt as a Percentage of:			
2016 Certified Taxable Assessed Value of \$153,014,611			17.45%
June 1, 2016 Estimated Assessed Value of \$162,447,473			16.43%

Overlapping Taxes for 2015

<u>Overlapping Entity</u>	<u>2015 Tax Rate per \$100 Assessed Valuation</u>
Montgomery County	\$0.47670
New Caney ISD	1.67000
Lone Star College District	0.10790
Montgomery County ESD No. 6	0.10000
Montgomery County Hospital District	0.07100
The District	<u>1.16500</u>
Total	\$3.59060

TAX DATA

Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records.

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Total Collections as of August 31, 2016	
				Amount	Percent
2011	\$53,781,505	\$ 1.225	\$658,822	\$658,822	100.00%
2012	62,393,401	\$ 1.225	764,317	764,317	100.00%
2013	72,626,297	\$ 1.225	889,670	889,670	100.00%
2014	91,966,905	\$ 1.210	1,112,797	1,110,361	99.78%
2015	123,507,051	\$ 1.165	1,436,617	1,429,293	99.49%

Taxes are due upon receipt of a bill therefor and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. No split payments are allowed and no discounts are allowed.

Tax Rate Distribution

	2016	2015	2014	2013	2012	2011
Debt Service	\$0.650	\$0.710	\$0.710	\$0.710	\$0.715	\$0.715
Maintenance	0.485	0.455	0.500	0.515	0.510	0.510
Total	\$1.135 (a)	\$1.165	\$1.210	\$1.225	\$1.225	\$1.225

(a) The District has indicated its intent to levy a tax rate of \$0.65 per \$100 of assessed valuation for debt service and \$0.485 per \$100 of assessed valuation for maintenance purposes for a total tax rate of \$1.135.

Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance: \$1.35 per \$100 Assessed Valuation

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which, when added to other funds legally available to the District for payment of outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on such debt. In connection with its approval, the Commission has concluded that a debt service tax in the initial year after the Bonds are issued (2017) of not less than \$0.65 per \$100 of assessed valuation would be sufficient to pay the debt service on the Bonds and the Outstanding Bonds. See "THE BONDS—Authority for Issuance."

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. On November 2, 2004, voters in the District authorized the Board to levy such a maintenance tax in an amount not to exceed \$1.35 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any additional unlimited tax bonds which may be issued in the future.

Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the original certified 2016 tax roll of \$146,741,492, which reflects ownership at January 1, 2016. A list of the principal taxpayers based on the June 1, 2016 Estimated Assessed Valuation of \$162,447,473 is not available.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2016 Assessed Valuation</u>	<u>Percentage of Certified Tax Roll</u>
Westin Homes & Properties LP (b)	Land & improvements	\$ 1,975,750	1.60%
Lennar Homes of Texas (a) (c)	Land & improvements	1,093,120	0.89%
Gehan Homes LTD (b)	Land & improvements	992,950	0.80%
Romeo Homes Texas LLC	Land & improvements	765,520	0.62%
Individual	Land & improvements	622,920	0.50%
K-Mill at Russell Palmer Ltd. (a)	Land & improvements	550,320	0.45%
Individual	Land & improvements	442,120	0.36%
Individual	Land & improvements	433,570	0.35%
Individual	Land & improvements	403,610	0.33%
Individual	Land & improvements	373,400	0.30%
Total		\$ 7,653,280	6.20%

- (a) See "THE DEVELOPERS".
- (b) See "THE DISTRICT – Homebuilding Program.
- (c) Lennar is doing business as Friendswood Development Company.

Summary of Assessed Valuation

The following breakdown of the 2012 through 2016 Certified assessed valuation has been provided by the District's Tax Assessor/Collector based on information contained in the 2012 through 2016 tax rolls of the District. Differences in values from other information herein are due to differences in dates of information provided. A breakdown related to the estimated assessed valuation as of June 1, 2016 is not currently available from the Appraisal District.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$19,563,590	\$21,862,530	\$17,491,250	\$13,519,340	\$11,745,350
Improvements	128,183,610	105,144,760	75,476,580	59,664,360	50,755,460
Personal Property	854,645	765,797	738,640	625,449	567,476
Less: Exemptions	<u>(1,860,353)</u>	<u>(4,266,036)</u>	<u>(1,739,565)</u>	<u>(1,182,852)</u>	<u>(674,885)</u>
Total Assessed Valuation	\$146,741,492	\$123,507,051	\$91,966,905	\$72,626,297	\$62,393,401

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2016 Certified Assessed Valuation or the June 1, 2016 Estimated Taxable Assessed Valuation and no use of debt service funds on hand, and utilize tax rates necessary to pay the District's maximum and average annual debt service requirement at a 95% collection rate. See "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments."

Average Annual Debt Service Requirement (2017-2040).....	\$827,837
\$0.57 Tax Rate on 2016 Certified Assessed Valuation	\$828,574
\$0.54 Tax Rate on June 1, 2016 Estimated Assessed Valuation.....	\$833,356
Maximum Annual Debt Service Requirement (2019).....	\$924,411
\$0.64 Tax Rate on 2016 Certified Assessed Valuation	\$930,329
\$0.60 Tax Rate on June 1, 2016 Estimated Assessed Valuation.....	\$925,951

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "Property Tax Code") requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Montgomery Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units wholly within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Montgomery County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2016 tax year, the District has not granted any such exemptions. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2016 tax year, the District has not granted a general residential homestead exemption.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) to five (5) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2016, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Tax Abatement

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is a person sixty-five (65) years of age or older or under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units (see "ESTIMATED OVERLAPPING DEBT STATEMENT"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

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

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds plus the estimated debt service requirements for the Bonds at an assumed interest rate of 4.50%.

Year	Outstanding Bonds Debt Service Requirements	Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2016	\$636,724				\$636,724
2017	634,390	\$100,000	\$175,500	275,500	909,890
2018	636,574	100,000	186,750	286,750	923,324
2019	642,161	100,000	182,250	282,250	924,411
2020	646,164	100,000	177,750	277,750	923,914
2021	639,554	100,000	173,250	273,250	912,804
2022	652,133	100,000	168,750	268,750	920,883
2023	653,833	100,000	164,250	264,250	918,083
2024	649,864	100,000	159,750	259,750	909,614
2025	655,125	100,000	155,250	255,250	910,375
2026	654,641	100,000	150,750	250,750	905,391
2027	668,186	100,000	146,250	246,250	914,436
2028	665,461	100,000	141,750	241,750	907,211
2029	661,781	100,000	137,250	237,250	899,031
2030	616,603	100,000	132,750	232,750	849,353
2031	614,600	100,000	128,250	228,250	842,850
2032	606,575	100,000	123,750	223,750	830,325
2033	612,450	100,000	119,250	219,250	831,700
2034	495,253	200,000	112,500	312,500	807,753
2035	236,750	400,000	99,000	499,000	735,750
2036	228,875	400,000	81,000	481,000	709,875
2037	220,625	400,000	63,000	463,000	683,625
2038	212,375	400,000	45,000	445,000	657,375
2039	204,125	400,000	27,000	427,000	631,125
2040	-	400,000	9,000	409,000	409,000
	\$13,144,820	\$4,300,000	\$3,060,000	\$7,360,000	\$20,504,820

Maximum Annual Debt Service Requirement (2019)	\$924,411
Average Annual Debt Service Requirements (2017-2040)	\$827,837

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas, Montgomery County, the City of Houston, or any other political entity other than the District, will be secured by a continuing, direct, annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District sufficient taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

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.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, undeveloped land and developed lots which are currently being marketed by the Developers to the builders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting 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, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See "THE DISTRICT—Residential Development."

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly 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 25 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and a decline in the nation's condition could adversely affect development and home-building plans in the District and restrain the growth of the District's property tax base or reduce it from current levels.

Competition

The demand for and construction of single-family homes in the District, which is 25 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the northeastern 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 of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District. 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.

Undeveloped Acreage

There are approximately 21 developable acres of land within the District that have not been provided with water, wastewater and storm drainage and detention facilities necessary to the construction of taxable improvements. There are also approximately 23.8 acres of land which have trunk facilities available, but have no above-ground improvements constructed. The District makes no representation as to when or if development of this acreage will occur. See "THE DISTRICT—Undeveloped Acreage."

Development and Home Construction in the District

As of June 16, 2016, approximately 30 developed lots within the District remained vacant. Future increases in value will result primarily from the construction of new homes. The District makes no representation with regard to whether or not the homebuilding programs will be successful. See “THE DISTRICT—Homebuilding Program” and “Maximum Impact on District Tax Rates” below.

Developer/Landowner Obligation to the District:

There are no commitments from or obligations of any developer or other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots or developed tracts of land would 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 continued development of taxable property within the District will increase or maintain its taxable value.

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 District property owners to pay their taxes. The 2016 certified assessed valuation of the District (see “FINANCIAL STATEMENT”) is \$153,014,611. After issuance of the Bonds, the maximum annual debt service requirement will be \$924,411 (2019) and the average annual debt service requirement will be \$827,837 (2017-2040). Assuming no increase or decrease from the 2016 certified assessed valuation and no use of funds other than tax collections, a tax rate of \$0.64 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$924,411 and a tax rate of \$0.57 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$827,837. See “DEBT SERVICE REQUIREMENTS”. The estimated assessed valuation as of June 1, 2016 within the District is \$162,447,473. Assuming no increase or decrease from the estimated assessed valuation as of June 1, 2016 and a 95% collection rate, a tax rate of \$0.60 per \$100 assessed valuation would be necessary to pay the maximum annual requirement and a tax rate of \$0.54 per \$100 assessed valuation would be necessary to pay the average annual requirement. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Outstanding Bonds and the Bonds based upon the 2016 certified assessed valuation and the estimated assessed valuation as of June 1, 2016, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. Any increase in taxable values depends on the continuing construction and sale of homes and other taxable improvements within the District. See “TAX PROCEDURES” and “TAX DATA--Tax Adequacy for Debt Service.”

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$15,900,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. See “THE BONDS--Issuance of Additional Debt.” The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of parity bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities or recreational facilities must be approved by the Commission. It is anticipated that additional bonds will be issued in the future to reimburse the Developers for existing facilities to serve the undeveloped acreage within the District, purchase additionally required wastewater treatment plant capacity and/or water plant capacity, if any, and to construct additional District facilities. After the issuance of the Bonds, the District will owe developers approximately \$3,550,000 for facilities constructed on behalf of the District. The District can make no representation that any additional development will occur within the District. The Engineer has stated that the District's authorized but unissued bonds should be adequate, under present land use projections, to finance water, sewer and drainage improvements. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS – Issuance of Additional Debt.”

Environmental and Air Quality Regulations

Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring action to prevent or mitigate pollution;
- Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a municipal utility district or other type of district (“Utility Districts”) 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 injunctive relief as to future compliance of and the ability to operate the Utility District’s water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area’s ability to grow and develop. The following is a discussion of certain environmental concerns that relate to Utility Districts, including the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality/Greenhouse Gas Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Commission 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 area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. The EPA granted the governor’s request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area’s new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA’s standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion (“ppb”) to 70 ppb. This could make it more difficult for the HGB Area to demonstrate progress in reducing ozone concentration.

Discharge Issues: Discharge regulations that Utility Districts, including the District, may be required to comply with involve: (1) storm water discharges and (2) wetlands dredge and fill activities.

Construction activities and operations of Utility Districts, such as the District, are also potentially subject to stormwater discharge permitting requirements under provisions from Section 402 of the Clean Water Act and Chapter 26 of the Texas Water Code. The permitting process is, in most instances, managed by the Commission through its Texas Pollutant Discharge Elimination System (“TPDES”). The Commission reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. TXR150000 became effective on March 5, 2013, and 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. Construction activity by the District may require coverage under TXR150000.

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s Clean Water Act jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On October 9, 2015, the United States Court of Appeals for the Sixth Circuit (“Sixth Circuit”) put the CWR on hold nationwide. On February 22, 2016, the Sixth Circuit decided it has jurisdiction to consider lawsuits against the CWR, and on April 21, 2016, denied six petitions for en banc review of this decision. The CWR is also under review by several other appellate and state courts. If the CWR is implemented, operations of Utility Districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.” The CWR expands the federal definition of what is a jurisdictional water, which could negatively impact development in the District.

Tax Collection Limitations

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

Registered Owners Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Beneficial Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Beneficial Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (1) is authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must also obtain the approval of the Commission prior to filing bankruptcy. Such law requires that the Commission investigate the financial conditions of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

If the District decides in the future to proceed voluntarily under the federal Bankruptcy Code, the District could develop and file a plan for the adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect the Registered Owners by reducing or eliminating the interest rate or the principal amount, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

A district may not be forced into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

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

Marketability

The District has no agreement with the Initial Purchaser 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 generally bought, sold or traded in the secondary market.

Future and Proposed Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has applied for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations:

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

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 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 Opinions

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

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

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

Legal Review

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

Tax Exemption

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on or disposition of the Bonds.

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

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

Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be “qualified tax-exempt obligations.”**

Collateral Federal Income Tax Consequences

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health-insurance premium assistance credit, and individuals allowed an earned income credit. **THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.**

Interest on the Bonds will be included as an adjustment for “adjusted current earnings” of a corporation for purposes of computing its alternative minimum tax under Section 55 of the Code.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrued period or be in excess of one year (the “Original Issue Discount Bonds”). The difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

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

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction.

The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

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

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

Moody's Investors Service ("Moody's") has assigned an underlying rating of "Baa1" to the Bonds. An explanation of the rating may be obtained from Moody's. The rating fees of Moody's will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Initial Purchaser.

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

Application has also been made to various municipal bond insurance companies for qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option of the District and at the District's expense.

SALE AND DISTRIBUTION OF THE BONDS

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was rendered by _____ (the "Initial Purchaser") bearing the interest rates shown on the cover page of this Official Statement, at a price of _____% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of _____% as calculated pursuant to Chapter 1204, Texas Government Code (the "IBA" method).

The delivery of the Bonds is conditional upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker, or similar person acting in the capacity of Initial Purchaser or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms with respect to the offering and the sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Initial Purchaser may over-allocate 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 municipal 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, which are more generally bought, sold or traded in the secondary market.

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 Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources believed to be reliable. No guarantee is made by the District as to the accuracy or completeness of the information derived from sources other than the District, and the inclusion herein of information from sources other than the District is not to be construed as a representation on the part of the District to such effect, except as described below under "CERTIFICATION OF OFFICIAL STATEMENT." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, 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

First Southwest, a Division of Hilltop Securities Inc. , 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, First Southwest, a Division of Hilltop Securities Inc. , has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

"THE DISTRICT"—K. Mill Development, Ltd., K-Mill at Russell Palmer, Ltd. and Edminster, Hinshaw, Russ & Associates, Inc. (Engineer); "THE DEVELOPERS"— K. Mill Development, Ltd., K-Mill at Russell Palmer, Ltd. and Friendswood Development Company, LLC, "TAX PROCEDURES"—Wheeler & Associates, Inc. and Schwartz, Page & Harding, L.L.P.; "THE SYSTEM"—Engineer; "THE BONDS" and "LEGAL MATTERS"—Schwartz, Page & Harding, L.L.P.; "FINANCIAL STATEMENT" and "TAX DATA"—Montgomery Central Appraisal District, Wheeler & Associates, Inc. and the Municipal Advisory Council.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as 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 in addition to the Financial Advisor.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the System and, in particular, that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" (as it relates to District facilities) has been provided by Edminster, Hinshaw, Russ & Associates, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the assessed valuations of the District 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.

Tax Assessor Collector: The information contained in this Official Statement relating to the historical breakdown of the certified taxable assessed valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Wheeler & Associates, Inc., and is included herein in reliance upon Wheeler & Associates, Inc. as an expert in collecting taxes.

Auditor: The District's financial statements for the year ended February 28, 2016, were audited by McCall Gibson Swedlund Barfoot PLLC. See "APPENDIX A" for a copy of the District's February 28, 2016 audited financial statements.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "WATER AND SEWER OPERATIONS—Waterworks and Sewer System Operating Statement" has been provided by Municipal Accounts and Consulting, Inc. and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of municipal utility districts.

UPDATING OF OFFICIAL STATEMENT

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

CERTIFICATION OF OFFICIAL STATEMENT

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). This information will be available to the public without charge through its Electronic Municipal Market Access (“EMMA”) internet portal at www.emma.msrb.org.

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. 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 “FINANCIAL STATEMENT,” “TAX DATA (except for the subsection entitled Tax Adequacy for Debt Service),” “THE SYSTEM,” “ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Taxes for 2015” and “WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT” (most of which information is contained in the District’s annual audit report) and in Appendix A. The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2017.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is February 28. Accordingly, it must provide updated information by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB via EMMA, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB in an electronic format and accompanied by identifying information as prescribed by the MSRB Board. The MSRB makes the information available to the public without charge through its EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 98, as of the date shown on the cover page.

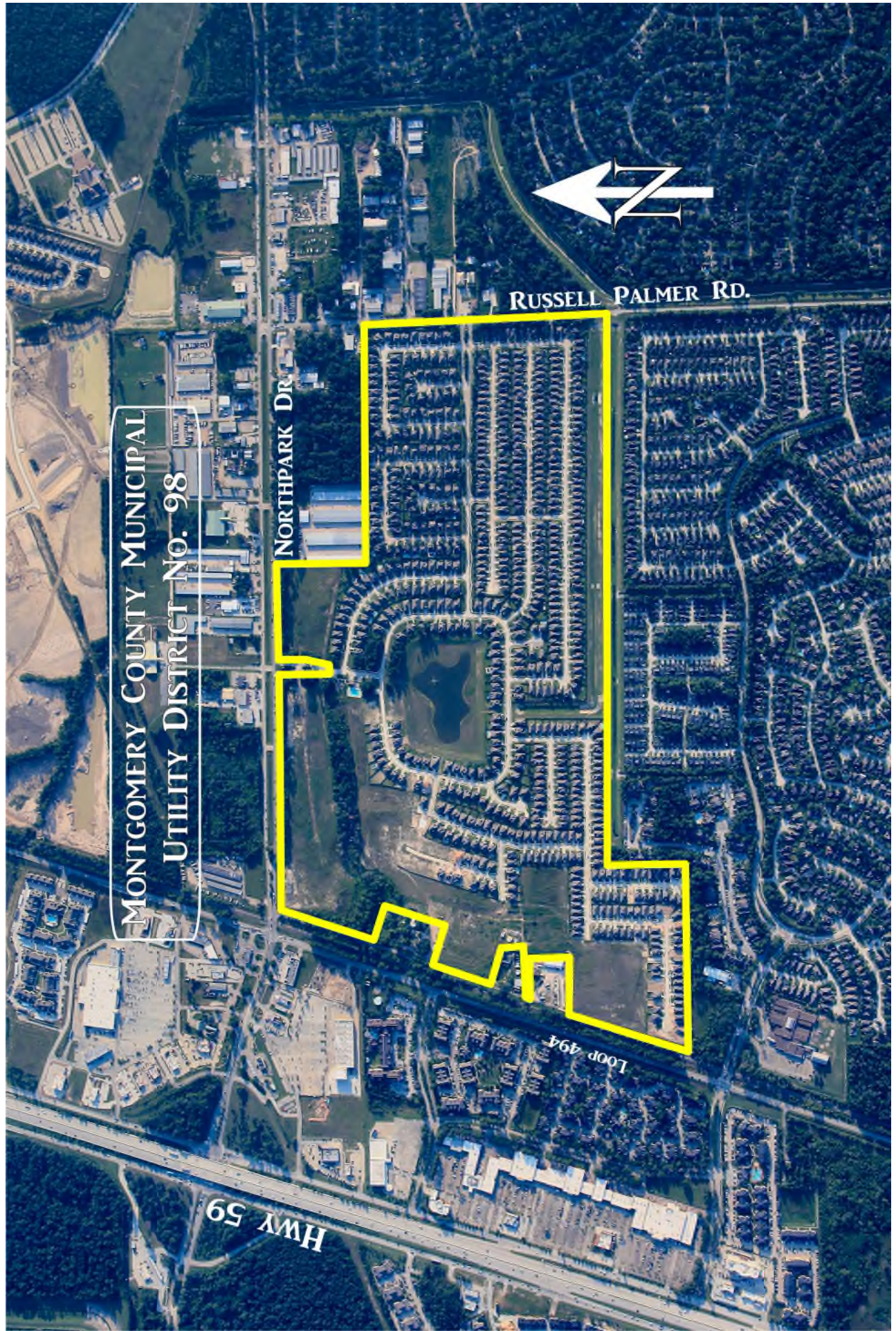
/s/ _____
President, Board of Directors
Montgomery County Municipal Utility District No. 98

ATTEST:

/s/ _____
Secretary, Board of Directors
Montgomery County Municipal Utility District No. 98

AERIAL PHOTO

(Approximate boundaries as of July, 2016)



MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT No. 98

NORTH PARK DR

RUSSELL PALMER RD.

HWY 59

Loop 494



PHOTOGRAPHS

The following photographs were taken in the District in July, 2016 solely to illustrate the type of improvements which have been constructed in the District. The District cannot predict if additional improvements will be constructed in the future.















APPENDIX A

District Audited Financial Statements for the fiscal year ended February 28, 2016

The information contained in this appendix includes the Audited Financial Statements of Montgomery County Municipal Utility District No. 98 and certain supplemental information for the fiscal year ended February 28, 2016.

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 98**

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FEBRUARY 29, 2016

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 98**

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FEBRUARY 29, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Municipal
Utility District No. 98
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 98 (the "District"), as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of February 29, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, 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.

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

June 2, 2016

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 29, 2016**

Management's discussion and analysis of Montgomery County Municipal Utility District No. 98's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended February 29, 2016. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The first of the government-wide statements is the Statement of Net Position. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

FUND FINANCIAL STATEMENTS

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 29, 2016**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$294,009 as of February 29, 2016.

A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 29, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2016</u>	<u>2015</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 3,830,665	\$ 2,708,004	\$ 1,122,661
Capital Assets (Net of Accumulated Depreciation)	<u>11,962,451</u>	<u>11,022,091</u>	<u>940,360</u>
Total Assets	<u>\$ 15,793,116</u>	<u>\$ 13,730,095</u>	<u>\$ 2,063,021</u>
Deferred Outflows of Resources	<u>\$ 61,999</u>	<u>\$ -0-</u>	<u>\$ 61,999</u>
Due to Developer	\$ 6,165,357	\$ 5,914,386	\$ (250,971)
Bonds Payable	8,861,152	6,080,984	(2,780,168)
Other Liabilities	<u>534,597</u>	<u>1,744,200</u>	<u>1,209,603</u>
Total Liabilities	<u>\$ 15,561,106</u>	<u>\$ 13,739,570</u>	<u>\$ (1,821,536)</u>
Net Position:			
Net Investment in Capital Assets	\$ (2,745,340)	\$ (2,335,717)	\$ (409,623)
Restricted	1,436,932	1,018,710	418,222
Unrestricted	<u>1,602,417</u>	<u>1,307,532</u>	<u>294,885</u>
Total Net Position	<u>\$ 294,009</u>	<u>\$ (9,475)</u>	<u>\$ 303,484</u>

The following table provides a summary of the District's operations for the years ended February 29, 2016, and February 28, 2015. The District's net position increased by \$303,484 during the current fiscal year.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2016</u>	<u>2015</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 1,447,841	\$ 1,110,129	\$ 337,712
Charges for Services	879,406	714,891	164,515
Other Revenues	<u>18,397</u>	<u>8,618</u>	<u>9,779</u>
Total Revenues	<u>\$ 2,345,644</u>	<u>\$ 1,833,638</u>	<u>\$ 512,006</u>
Expenses for Services	<u>2,042,160</u>	<u>1,478,521</u>	<u>(563,639)</u>
Change in Net Position	\$ 303,484	\$ 355,117	\$ (51,633)
Net Position, Beginning of Year	<u>(9,475)</u>	<u>(364,592)</u>	<u>355,117</u>
Net Position, End of Year	<u>\$ 294,009</u>	<u>\$ (9,475)</u>	<u>\$ 303,484</u>

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 29, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of February 29, 2016, were \$3,388,672, an increase of \$871,821 from the prior year.

The General Fund fund balance increased by \$293,385, primarily due to property tax revenues and service revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$437,279, primarily due to the structure of the District's debt service requirements.

The Capital Projects Fund fund balance increased by \$141,157, primarily due to unspent proceeds from the Series 2015A bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$306,503 more than budgeted primarily due to higher tax and service revenues than anticipated. Actual expenditures were \$263,152 more than budgeted primarily due to higher than anticipated operating and capital costs.

CAPITAL ASSETS

The District's capital assets as of February 29, 2016, amount to \$11,962,451 and include land, as well as the water, wastewater and drainage systems. Significant capital asset activity during the current fiscal year includes reimbursement to the developer for Kings Mill, Phase II detention expansion and construction of water, wastewater and drainage facilities for Kings Mill Sections 1 and 6, lift station upgrades and sanitary sewer rehabilitation.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2016	2015	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 3,271,852	\$ 3,212,191	\$ 59,661
Construction in Progress	137,964		137,964
Capital Assets, Net of Accumulated Depreciation:			
Water System	2,571,217	2,143,020	428,197
Wastewater System	2,775,864	2,805,098	(29,234)
Drainage System	3,205,554	2,861,782	343,772
Total Net Capital Assets	\$ 11,962,451	\$ 11,022,091	\$ 940,360

Additional information on the District's capital assets can be found in Note 6 of this report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 29, 2016**

LONG-TERM DEBT ACTIVITY

As of February 29, 2016, the District had total bond debt payable of \$8,940,000. The changes in the debt position of the District during the current fiscal year are summarized as follows:

Bond Debt Payable, March 1, 2015	\$ 6,215,000
Add: Bond Sales	5,150,000
Less: Bond Principal Refunded	2,220,000
Less: Bond Principal Paid	<u>205,000</u>
Bond Debt Payable, February 29, 2016	<u>\$ 8,940,000</u>

The District's Series 2010, 2011 and 2013 bonds are not rated or insured. The Series 2015 Refunding and Series 2015A bonds carry an underlying rating of "Baa2" from Moody's and an insured rating of "AA" from Standard and Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above ratings are as of February 29, 2016, and reflect all rating changes of the bond insurer through the year then ended.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Municipal Utility District No. 98, c/o Schwartz Page & Harding, LLP, 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
FEBRUARY 29, 2016

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 700,870	\$ 977,576
Investments	1,100,000	680,000
Receivables:		
Property Taxes	17,260	26,776
Penalty and Interest on Delinquent Taxes		
Service Accounts	55,903	
Accrued Interest	1,408	1,494
Due from Other Funds	50,210	
Prepaid Costs	9,470	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 1,935,121	\$ 1,685,846
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,935,121	\$ 1,685,846

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 256,830	\$ 1,935,276 1,780,000	\$	\$ 1,935,276 1,780,000
	44,036		44,036
		3,078	3,078
	55,903		55,903
	2,902		2,902
	50,210	(50,210)	
	9,470		9,470
		3,271,852	3,271,852
		137,964	137,964
		<u>8,552,635</u>	<u>8,552,635</u>
<u>\$ 256,830</u>	<u>\$ 3,877,797</u>	<u>\$ 11,915,319</u>	<u>\$ 15,793,116</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 61,999</u>	<u>\$ 61,999</u>
<u>\$ 256,830</u>	<u>\$ 3,877,797</u>	<u>\$ 11,977,318</u>	<u>\$ 15,855,115</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
FEBRUARY 29, 2016

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 256,569	\$ 55,000
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		50,210
Due to Taxpayers		7,064
Unearned Tap Revenue	3,500	
Security Deposits	72,635	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 332,704	\$ 112,274
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 17,260	\$ 26,776
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 9,470	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,546,796
Unassigned	1,575,687	
TOTAL FUND BALANCES	\$ 1,585,157	\$ 1,546,796
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,935,121	\$ 1,685,846
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 111	\$ 311,680	\$	\$ 311,680
		139,718	139,718
		6,165,357	6,165,357
	50,210	(50,210)	
	7,064		7,064
	3,500		3,500
	72,635		72,635
		305,000	305,000
		8,556,152	8,556,152
<u>\$ 111</u>	<u>\$ 445,089</u>	<u>\$ 15,116,017</u>	<u>\$ 15,561,106</u>
<u>\$ -0-</u>	<u>\$ 44,036</u>	<u>\$ (44,036)</u>	<u>\$ -0-</u>
\$ 256,719	\$ 9,470	\$ (9,470)	\$
	256,719	(256,719)	
	1,546,796	(1,546,796)	
	1,575,687	(1,575,687)	
<u>\$ 256,719</u>	<u>\$ 3,388,672</u>	<u>\$ (3,388,672)</u>	<u>\$ - 0 -</u>
<u>\$ 256,830</u>	<u>\$ 3,877,797</u>		
		\$ (2,745,340)	\$ (2,745,340)
		1,436,932	1,436,932
		1,602,417	1,602,417
		<u>\$ 294,009</u>	<u>\$ 294,009</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FEBRUARY 29, 2016

Total Fund Balances - Governmental Funds	\$	3,388,672
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Land and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		11,962,451
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Deferred charges on refunding bonds are not expenditures of the current period in governmental activities.		61,999
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Deferred tax revenues and uncollected penalty and interest revenues on delinquent taxes for the 2015 and prior tax levies became part of recognized revenue in the governmental activities of the District.		47,114
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (6,165,357)	
Accrued Interest Payable	(139,718)	
Bonds Payable	<u>(8,861,152)</u>	<u>(15,166,227)</u>

Total Net Position - Governmental Activities	\$	<u>294,009</u>
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The accompanying notes to the financial statements are an integral part of this report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED FEBRUARY 29, 2016

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 564,199	\$ 877,745
Water Service	274,461	
Wastewater Service	474,093	
Penalty and Interest	31,489	6,542
Tap Connection and Inspection Fees	92,325	
Investment Revenues	4,744	2,655
Miscellaneous Revenues	3,435	7,265
	<u>\$ 1,444,746</u>	<u>\$ 894,207</u>
TOTAL REVENUES		
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 93,860	\$ 2,094
Contracted Services	149,204	27,285
Purchased Water Service	202,794	
Purchased Wastewater Service	318,535	
Utilities	9,290	
Repairs and Maintenance	133,818	
Depreciation		
Other	105,895	6,671
Capital Outlay	137,965	
Debt Service:		
Bond Principal		205,000
Bond Interest		266,056
Bond Issuance Costs		113,787
Bond Anticipation Note Interest		
	<u>\$ 1,151,361</u>	<u>\$ 620,893</u>
TOTAL EXPENDITURES/EXPENSES		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ 293,385</u>	<u>\$ 273,314</u>
OTHER FINANCING SOURCES (USES)		
Long-Term Debt Issued	\$	\$ 49,666
Refunding Bonds		2,350,000
Payment to Refunded Bond Escrow Agent		(2,241,766)
Bond Premium		6,065
	<u>\$ -0-</u>	<u>\$ 163,965</u>
TOTAL OTHER FINANCING SOURCES (USES)		
NET CHANGE IN FUND BALANCES	\$ 293,385	\$ 437,279
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - MARCH 1, 2015	<u>1,291,772</u>	<u>1,109,517</u>
FUND BALANCES/NET POSITION - FEBRUARY 29, 2016	<u>\$ 1,585,157</u>	<u>\$ 1,546,796</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,441,944	\$ 5,897	\$ 1,447,841
	274,461		274,461
	474,093		474,093
	38,031	496	38,527
	92,325		92,325
298	7,697		7,697
	10,700		10,700
<u>\$ 298</u>	<u>\$ 2,339,251</u>	<u>\$ 6,393</u>	<u>\$ 2,345,644</u>
\$ 3,826	\$ 99,780	\$	\$ 99,780
566	177,055		177,055
	202,794		202,794
	318,535		318,535
	9,290		9,290
	133,818		133,818
		269,833	269,833
666	113,232		113,232
2,304,405	2,442,370	(2,442,370)	
	205,000	(205,000)	
	266,056	37,968	304,024
295,938	409,725		409,725
4,074	4,074		4,074
<u>\$ 2,609,475</u>	<u>\$ 4,381,729</u>	<u>\$ (2,339,569)</u>	<u>\$ 2,042,160</u>
<u>\$ (2,609,177)</u>	<u>\$ (2,042,478)</u>	<u>\$ 2,345,962</u>	<u>\$ 303,484</u>
\$ 2,750,334	\$ 2,800,000	\$ (2,800,000)	\$
	2,350,000	(2,350,000)	
	(2,241,766)	2,241,766	
	6,065	(6,065)	
<u>\$ 2,750,334</u>	<u>\$ 2,914,299</u>	<u>\$ (2,914,299)</u>	<u>\$ -0-</u>
\$ 141,157	\$ 871,821	\$ (871,821)	\$
		303,484	303,484
115,562	2,516,851	(2,526,326)	(9,475)
<u>\$ 256,719</u>	<u>\$ 3,388,672</u>	<u>\$ (3,094,663)</u>	<u>\$ 294,009</u>

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2016**

Net Change in Fund Balances - Governmental Funds \$ 871,821

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. 5,897

Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed. 496

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. (269,833)

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. 2,442,370

Governmental funds report bond premiums as other financing sources in the year received. However, in the Statement of Net Position, bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities. (6,065)

Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. 205,000

Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. (37,968)

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position. (5,150,000)

Governmental funds report the payment to the refunded bond escrow agent as an other financing use. However, the refunding of outstanding bonds decreases long-term liabilities in the Statement of Net Position. 2,241,766

Change in Net Position - Governmental Activities \$ 303,484

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 1. CREATION OF DISTRICT

Montgomery County Municipal Utility District No. 98 (the “District”) was created by an order of the Texas Commission on Environmental Quality (the “Commission”), dated July 30, 2004, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Water System	10-45
Wastewater System	10-45
Drainage System	10-45

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only.

Measurement Focus

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 3. LONG-TERM DEBT

	<u>Series 2010</u>	<u>Series 2011</u>	<u>Series 2013</u>
Amount Outstanding – February 29, 2016	\$ 965,000	\$ 1,510,000	\$ 1,315,000
Interest Rates	3.65%-5.00%	2.75%-5.00%	2.50%-4.75%
Maturity Dates - Serially Beginning/Ending	April 1, 2016/2031	April 1, 2016/2033	April 1, 2016/2034
Interest Payment Dates	April 1, October 1	April 1, October 1	April 1, October 1
Callable Dates	April 1, 2018*	April 1, 2019*	April 1, 2021*
		<u>Refunding Series 2015</u>	<u>Series 2015A</u>
Amount Outstanding – February 29, 2016		\$ 2,350,000	\$ 2,800,000
Interest Rates		2.00%-3.25%	2.00%-4.125%
Maturity Dates - Serially Beginning/Ending		April 1, 2016/2029	April 1, 2016/2039
Interest Payment Dates		April 1, October 1	April 1, October 1
Callable Dates		April 1, 2023*	April 1, 2023*

* Or any date thereafter, callable at par plus accrued interest to the date fixed for redemption. The Series 2010 term bonds maturing on April 1, 2031, are subject to mandatory sinking fund redemption beginning on April 1, 2026. The Series 2011 term bonds maturing on April 1, 2033, are subject to mandatory sinking fund redemption beginning on April 1, 2032. The Series 2013 term bonds maturing on April 1, 2034, are subject to mandatory sinking fund redemption beginning on April 1, 2031. The Series 2015 Refunding term bonds maturing on April 1, 2025 and April 1, 2027, are subject to mandatory sinking fund redemption on April 1, 2024 and April 1, 2026, respectively. The Series 2015A term bonds maturing on April 1, 2023, April 1, 2027, April 1, 2030, April 1, 2032, April 1, 2034, and April 1, 2039, are subject to mandatory sinking fund redemption on April 1, 2021, April 1, 2024, April 1, 2028, April 1, 2031, April 1, 2033 and April 1, 2036, respectively.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding long-term liabilities for the year ended February 29, 2016:

	March 1, 2015	Additions	Retirements	February 29, 2016
Bonds Payable	\$ 6,215,000	\$ 5,150,000	\$ 2,425,000	\$ 8,940,000
Unamortized Discounts	(134,016)		(49,408)	(84,608)
Unamortized Premiums		6,065	305	5,760
Bonds Payable, net	\$ 6,080,984	\$ 5,156,065	\$ 2,375,897	\$ 8,861,152
		Amount Due Within One Year		\$ 305,000
		Amount Due After One Year		8,556,152
		Bonds Payable, net		\$ 8,861,152

As of February 29, 2016, the District had authorized but unissued bonds in the amount of \$20,200,000 in tax bonds and \$29,870,000 in refunding bonds.

As of February 29, 2016, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 305,000	\$ 331,724	\$ 636,724
2018	310,000	324,389	634,389
2019	320,000	316,574	636,574
2020	335,000	307,161	642,161
2021	350,000	296,164	646,164
2022-2026	1,960,000	1,290,511	3,250,511
2027-2031	2,370,000	896,670	3,266,670
2032-2036	2,190,000	375,627	2,565,627
2037-2040	800,000	66,000	866,000
	\$ 8,940,000	\$ 4,204,820	\$ 13,144,820

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended February 29, 2016, the District levied an ad valorem debt service tax rate of \$0.71 per \$100 of assessed valuation, which resulted in a tax levy of \$876,816 on the adjusted taxable valuation of \$123,495,431 for the 2015 tax year. The bond resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax.

The District's tax calendar is as follows:

- Levy Date - As soon after the release of the certified tax roll as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

- A. The bond orders state that any profit realized from or interest accruing on such investments shall belong to the fund from which the monies for such investments were taken; provided however, that at the discretion of the Board of Directors, the profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund.
- B. The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of the issue.
- C. The bond orders state that the District is required to provide continuing disclosure of certain general financial information and operating data, as well as notice of certain material events as defined by federal securities laws, with respect to the District to the Nationally Recognized Municipal Securities Information Repositories and the State Information Depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS
(Continued)

D. In accordance with the 2015A bond order, a portion of the bond proceeds were deposited into the Debt Service Fund and restricted for the payment of bond interest. Transactions for the current year are summarized as follows:

Restricted for Bond Interest – March 1, 2015	\$ -0-
Add: Interest Received – Series 2015A	49,666
Less: Interest Paid – Series 2015A	<u>23,177</u>
Restricted for Bond Interest – February 29, 2016	<u>\$ 26,489</u>

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes. Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$3,715,276 and the bank balance was \$3,653,060. Of the bank balance, \$2,118,173 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third-party depository. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at February 29, 2016, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 700,870	\$ 1,100,000	\$ 1,800,870
DEBT SERVICE FUND	977,576	680,000	1,657,576
CAPITAL PROJECTS FUND	<u>256,830</u>	<u> </u>	<u>256,830</u>
TOTAL DEPOSITS	<u><u>\$ 1,935,276</u></u>	<u><u>\$ 1,780,000</u></u>	<u><u>\$ 3,715,276</u></u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act (the "Act"). Authorized investments of the Act are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain 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's adopted investment policy allows it to invest in any of the above items except items 3, 6, 8, 9 and 12.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of February 29, 2016, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities Less Than 1 Year
<u>GENERAL FUND</u>		
Certificates of Deposit	\$ 1,100,000	\$ 1,100,000
<u>DEBT SERVICE FUND</u>		
Certificates of Deposit	680,000	680,000
TOTAL INVESTMENTS	\$ 1,780,000	\$ 1,780,000

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2016:

	March 1, 2015	Increases	Decreases	February 29, 2016
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 3,212,191	\$ 59,661	\$	\$ 3,271,852
Construction in Progress		1,210,193	1,072,229	137,964
Total Capital Assets Not Being Depreciated	<u>\$ 3,212,191</u>	<u>\$ 1,269,854</u>	<u>\$ 1,072,229</u>	<u>\$ 3,409,816</u>
Capital Assets Subject to Depreciation				
Water System	\$ 2,634,040	\$ 519,906	\$	\$ 3,153,946
Wastewater System	3,257,065	58,465		3,315,530
Drainage System	3,247,433	434,197		3,681,630
Total Capital Assets Subject to Depreciation	<u>\$ 9,138,538</u>	<u>\$ 1,012,568</u>	<u>\$ - 0 -</u>	<u>\$ 10,151,106</u>
Accumulated Depreciation				
Water System	\$ 491,020	\$ 91,709	\$	\$ 582,729
Wastewater System	451,967	87,699		539,666
Drainage System	385,651	90,425		476,076
Total Accumulated Depreciation	<u>\$ 1,328,638</u>	<u>\$ 269,833</u>	<u>\$ - 0 -</u>	<u>\$ 1,598,471</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 7,809,900</u>	<u>\$ 742,735</u>	<u>\$ - 0 -</u>	<u>\$ 8,552,635</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 11,022,091</u></u>	<u><u>\$ 2,012,589</u></u>	<u><u>\$ 1,072,229</u></u>	<u><u>\$ 11,962,451</u></u>

NOTE 7. MAINTENANCE TAX

On November 2, 2004, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.35 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater systems. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.455 per \$100 of assessed valuation, which resulted in a tax levy of \$561,903 on the adjusted taxable valuation of \$123,495,431 for the 2015 tax year.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant changes in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 9. WATER SUPPLY AND WASTE DISPOSAL CONTRACTS

In April 2004, one of the District's developers entered into water supply and waste disposal contracts with the City of Houston. These contracts were assumed by the District in January 2005 and have terms of 40 years. During the current year, the District incurred costs of \$202,794 and \$318,535 under the terms of the water supply and waste disposal contracts, respectively.

NOTE 10. UNREIMBURSED DEVELOPER COSTS

The District has executed developer financing agreements with a Developer within the District. The agreements call for the Developer to fund costs associated with water, sewer, and drainage facilities until such time as the District can sell bonds. As reflected in the Statement of Net Position, \$6,165,357 has been recorded as a liability for facilities financed by the Developer. Reimbursement to the Developer is anticipated to come from future bond sales.

NOTE 11. INTERFUND RECEIVABLES AND PAYABLES

As of February 29, 2016, the Debt Service Fund owed the General Fund \$50,210 for maintenance tax collections.

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT

The District entered into a Strategic Partnership Agreement dated effective November 22, 2013, with the City of Houston, Texas. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the "Tract" for the limited purposes of applying the City's Planning and Zoning Ordinances (under certain circumstances) and to impose a sales tax within the Tract within the boundaries of the District. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

All taxable property within the District shall not be liable for any present or future debts of the City, and current and future taxes levied by the City shall not be levied on taxable property within the District. The District's assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period preceding full-purpose annexation.

The qualified voters of the Tract may vote in certain City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the Tract.

The City shall impose a Sales and Use Tax within the boundaries of the Tract upon the limited-purpose annexation of the Tract. The Sales and Use Tax shall be imposed on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of all Sales and Use Tax revenues generated within the boundaries of the Tract. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Controller's office. During the current fiscal year, the District did not receive any sales tax revenue.

NOTE 13. BOND ANTICIPATION NOTE AND BOND SALES

On November 13, 2014, the District closed on the sale of its \$1,478,000 Series 2014 Bond Anticipation Note (BAN) at an annual interest rate of 0.78%. The District used proceeds of the BAN to reimburse the Developers for 70% of the costs associated with the construction and engineering of phase two detention expansion, water, wastewater and drainage to serve Kings Mill, Sections 1 and 6, and lift station upgrades. Additional proceeds were used to cover issuance costs of the BAN.

On June 16, 2015, the District issued \$2,350,000 of Unlimited Tax Refunding Bonds, Series 2015 to refund the District's remaining balance of Series 2006 bonds. The net proceeds of \$2,241,766 funds were used to retire the outstanding Series 2006 bonds in the amount of \$2,220,000. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. The effect of the refunding decreased total debt service by \$174,559 and obtained net present value savings of \$137,454.

Series	Interest Rates	Maturities	Callable Date	Callable at February 29, 2016
2006	4.30%-4.75%	2016-2029	04/01/2015	\$ <u>-0-</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 29, 2016

NOTE 13. BOND ANTICIPATION NOTE AND BOND SALES (Continued)

On July 7, 2015, the District issued \$2,800,000 Series 2015A Unlimited Tax Bonds. The District used proceeds of the bond sale to retire the BAN and reimburse Developers for the remaining portion of the costs of the projects reimbursed by the BAN. Additional proceeds were used to pay capitalized interest and to cover issuance costs of the bonds.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98

REQUIRED SUPPLEMENTARY INFORMATION

FEBRUARY 29, 2016

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 29, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 436,083	\$ 564,199	\$ 128,116
Water Service	227,000	274,461	47,461
Wastewater Service	394,600	474,093	79,493
Penalty and Interest	32,000	31,489	(511)
Tap Connection and Inspection Fees	42,500	92,325	49,825
Investment Revenues	3,660	4,744	1,084
Miscellaneous Revenues	<u>2,400</u>	<u>3,435</u>	<u>1,035</u>
TOTAL REVENUES	<u>\$ 1,138,243</u>	<u>\$ 1,444,746</u>	<u>\$ 306,503</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 94,000	\$ 93,860	\$ 140
Contracted Services	139,500	149,204	(9,704)
Purchased Water Service	180,500	202,794	(22,294)
Purchased Wastewater Service	256,000	318,535	(62,535)
Utilities	11,440	9,290	2,150
Repairs and Maintenance	109,500	133,818	(24,318)
Other	77,269	105,895	(28,626)
Capital Outlay	<u>20,000</u>	<u>137,965</u>	<u>(117,965)</u>
TOTAL EXPENDITURES	<u>\$ 888,209</u>	<u>\$ 1,151,361</u>	<u>\$ (263,152)</u>
NET CHANGE IN FUND BALANCE	\$ 250,034	\$ 293,385	\$ 43,351
FUND BALANCE - MARCH 1, 2015	<u>1,291,772</u>	<u>1,291,772</u>	<u> </u>
FUND BALANCE - FEBRUARY 29, 2016	<u>\$ 1,541,806</u>	<u>\$ 1,585,157</u>	<u>\$ 43,351</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

FEBRUARY 29, 2016

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
SERVICES AND RATES
FOR THE YEAR ENDED FEBRUARY 29, 2016**

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

<u> X </u>	Retail Water	<u> </u>	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> X </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> X </u>	Other : The District purchases water and wastewater services from the City of Houston				

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order adopted April 5, 2012.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 28.14	8,000	N	\$ 3.08	8,001 and Over
WASTEWATER:	\$ 52.28	8,000	N	\$5.41	8,001 and Over

District employs winter averaging for wastewater usage?

 X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$34.30 Wastewater: \$63.10 Total: \$97.40

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
SERVICES AND RATES
FOR THE YEAR ENDED FEBRUARY 29, 2016**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤ ³ / ₄ "	<u>688</u>	<u>684</u>	x 1.0	<u>684</u>
1"	_____	_____	x 2.5	_____
1½"	<u>1</u>	<u>1</u>	x 5.0	<u>5</u>
2"	<u>3</u>	<u>3</u>	x 8.0	<u>24</u>
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>692</u></u>	<u><u>688</u></u>		<u><u>713</u></u>
Total Wastewater Connections	<u><u>687</u></u>	<u><u>683</u></u>	x 1.0	<u><u>683</u></u>

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

Gallons billed to customers:	58,666,000	Water Accountability Ratio: 96.9% (Gallons billed/Gallons purchased)
Gallons purchased:	60,625,000	From: City of Houston, Texas
Leaks and Flushing:	70,000	

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
SERVICES AND RATES
FOR THE YEAR ENDED FEBRUARY 29, 2016**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is partly located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED FEBRUARY 29, 2016

PROFESSIONAL FEES:	
Auditing	\$ 10,500
Engineering	22,474
Legal	<u>60,886</u>
TOTAL PROFESSIONAL FEES	<u>\$ 93,860</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 202,794
Purchased Wastewater Service	<u>318,535</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 521,329</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 20,776
Operations and Billing	<u>37,358</u>
TOTAL CONTRACTED SERVICES	<u>\$ 58,134</u>
UTILITIES:	
Electricity	\$ 7,872
Telephone	<u>1,418</u>
TOTAL UTILITIES	<u>\$ 9,290</u>
REPAIRS AND MAINTENANCE	<u>\$ 133,818</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 10,200
Election Costs	731
Insurance	9,890
Office Supplies and Postage	17,812
Payroll Taxes	780
Travel and Meetings	5,185
Other	<u>7,045</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 51,643</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED FEBRUARY 29, 2016

CAPITAL OUTLAY:	
Capitalized Assets	\$ 137,965
Expenditures Not Capitalized	<u> </u>
TOTAL CAPITAL OUTLAY	<u>\$ 137,965</u>
TAP CONNECTIONS	<u>\$ 35,825</u>
SOLID WASTE DISPOSAL	<u>\$ 91,070</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 1,309
Permit Fees	950
Reconnection Fees	1,855
Inspection Fees	10,660
Regulatory Assessment	<u>3,653</u>
TOTAL OTHER EXPENDITURES	<u>\$ 18,427</u>
TOTAL EXPENDITURES	<u>\$ 1,151,361</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
INVESTMENTS
FEBRUARY 29, 2016

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Certificate of Deposit	XXXX2979	0.50%	12/09/16	\$ 125,000	\$ 79
Certificate of Deposit	XXXX4553	0.60%	01/20/17	100,000	64
Certificate of Deposit	XXXX1600	0.50%	02/12/17	150,000	35
Certificate of Deposit	XXXX0234	0.50%	02/17/17	150,000	21
Certificate of Deposit	XXXX0327	0.50%	09/30/16	75,000	154
Certificate of Deposit	XXXX1910	0.20%	04/28/16	50,000	84
Certificate of Deposit	XXXX5718	0.20%	08/16/16	75,000	81
Certificate of Deposit	XXXX0801	0.60%	09/14/16	75,000	206
Certificate of Deposit	XXXX1438	0.45%	11/11/16	75,000	68
Certificate of Deposit	XXXX2909	0.40%	06/04/16	75,000	221
Certificate of Deposit	XXXX2908	0.40%	07/06/16	75,000	195
Certificate of Deposit	XXXX2906	0.40%	06/29/16	75,000	200
TOTAL GENERAL FUND				<u>\$ 1,100,000</u>	<u>\$ 1,408</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX4019	0.50%	02/10/17	\$ 200,000	\$ 47
Certificate of Deposit	XXXX6064	0.45%	03/19/16	240,000	882
Certificate of Deposit	XXXX0207	0.50%	09/09/16	240,000	565
TOTAL DEBT SERVICE FUND				<u>\$ 680,000</u>	<u>\$ 1,494</u>
TOTAL - ALL FUNDS				<u>\$ 1,780,000</u>	<u>\$ 2,902</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED FEBRUARY 29, 2016

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
MARCH 1, 2015	\$	15,760		\$ 22,379
Adjustments to Beginning				
Balance		<u>3,796</u>	\$ 19,556	<u>5,326</u> \$ 27,705
Original 2015 Tax Levy	\$	535,980		\$ 836,365
Adjustment to 2015 Tax Levy		<u>25,923</u>	<u>561,903</u>	<u>40,451</u> <u>876,816</u>
TOTAL TO BE				
ACCOUNTED FOR			\$ 581,459	\$ 904,521
TAX COLLECTIONS:				
Prior Years	\$	18,432		\$ 26,108
Current Year		<u>545,767</u>	<u>564,199</u>	<u>851,637</u> <u>877,745</u>
TAXES RECEIVABLE -				
FEBRUARY 29, 2016			<u>\$ 17,260</u>	<u>\$ 26,776</u>
TAXES RECEIVABLE BY				
YEAR:				
2015			\$ 16,136	\$ 25,179
2014			<u>1,124</u>	<u>1,597</u>
TOTAL			<u>\$ 17,260</u>	<u>\$ 26,776</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED FEBRUARY 29, 2016

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
PROPERTY VALUATIONS:				
Land	\$ 21,862,530	\$ 17,463,470	\$ 13,491,560	\$ 11,717,570
Improvements	105,144,760	75,332,160	59,384,490	50,623,910
Personal Property	765,797	728,408	625,449	567,476
Exemptions	<u>(4,277,656)</u>	<u>(1,717,333)</u>	<u>(1,004,588)</u>	<u>(674,885)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 123,495,431</u>	<u>\$ 91,806,705</u>	<u>\$ 72,496,911</u>	<u>\$ 62,234,071</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.710	\$ 0.71	\$ 0.715	\$ 0.715
Maintenance	<u>0.455</u>	<u>0.51</u>	<u>0.510</u>	<u>0.510</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.165</u>	<u>\$ 1.21</u>	<u>\$ 1.225</u>	<u>\$ 1.225</u>
ADJUSTED TAX LEVY*	<u>\$ 1,438,719</u>	<u>\$ 1,109,605</u>	<u>\$ 888,086</u>	<u>\$ 762,365</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>97.13 %</u>	<u>99.75 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

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

Maintenance Tax – Maximum tax rate in an amount of \$1.35 per \$100 assessed valuation approved by voters on November 2, 2004.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 29, 2016

S E R I E S - 2 0 1 0			
Due During Fiscal Years Ending February 28	Principal Due April 1	Interest Due April 1/ October 1	Total
2017	\$ 40,000	\$ 45,100	\$ 85,100
2018	40,000	43,610	83,610
2019	40,000	42,050	82,050
2020	40,000	40,400	80,400
2021	40,000	38,680	78,680
2022	40,000	36,910	76,910
2023	40,000	35,070	75,070
2024	40,000	33,170	73,170
2025	40,000	31,230	71,230
2026	40,000	29,250	69,250
2027	40,000	27,250	67,250
2028	40,000	25,250	65,250
2029	40,000	23,250	63,250
2030	40,000	21,250	61,250
2031	195,000	15,375	210,375
2032	210,000	5,250	215,250
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
	\$ 965,000	\$ 493,095	\$ 1,458,095

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 29, 2016

S E R I E S - 2 0 1 1			
Due During Fiscal Years Ending February 28	Principal Due April 1	Interest Due April 1/ October 1	Total
2017	\$ 35,000	\$ 68,905	\$ 103,905
2018	35,000	67,899	102,899
2019	35,000	66,805	101,805
2020	45,000	65,393	110,393
2021	45,000	63,671	108,671
2022	45,000	61,894	106,894
2023	50,000	59,969	109,969
2024	50,000	57,894	107,894
2025	50,000	55,769	105,769
2026	50,000	53,594	103,594
2027	55,000	51,256	106,256
2028	65,000	48,524	113,524
2029	65,000	45,501	110,501
2030	85,000	41,934	126,934
2031	85,000	37,822	122,822
2032	85,000	33,625	118,625
2033	305,000	23,875	328,875
2034	325,000	8,124	333,124
2035			
2036			
2037			
2038			
2039			
2040			
	\$ 1,510,000	\$ 912,454	\$ 2,422,454

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 29, 2016

S E R I E S - 2 0 1 3

Due During Fiscal Years Ending February 28	Principal Due April 1	Interest Due April 1/ October 1	Total
2017	\$ 35,000	\$ 52,950	\$ 87,950
2018	40,000	52,012	92,012
2019	40,000	51,012	91,012
2020	45,000	49,950	94,950
2021	45,000	48,769	93,769
2022	45,000	47,475	92,475
2023	50,000	45,988	95,988
2024	55,000	44,214	99,214
2025	55,000	42,219	97,219
2026	60,000	39,988	99,988
2027	60,000	37,588	97,588
2028	65,000	35,006	100,006
2029	70,000	32,093	102,093
2030	50,000	29,437	79,437
2031	75,000	26,625	101,625
2032	75,000	23,156	98,156
2033	75,000	19,594	94,594
2034	75,000	16,031	91,031
2035	300,000	7,125	307,125
2036			
2037			
2038			
2039			
2040			
	<u>\$ 1,315,000</u>	<u>\$ 701,232</u>	<u>\$ 2,016,232</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 29, 2016

SERIES - 2015 REFUNDING

Due During Fiscal Years Ending February 28	Principal Due April 1	Interest Due April 1/ October 1	Total
2017	\$ 140,000	\$ 65,988	\$ 205,988
2018	135,000	63,237	198,237
2019	140,000	60,488	200,488
2020	140,000	56,987	196,987
2021	150,000	52,638	202,638
2022	150,000	48,137	198,137
2023	160,000	43,488	203,488
2024	170,000	38,537	208,537
2025	175,000	33,363	208,363
2026	185,000	27,962	212,962
2027	190,000	22,338	212,338
2028	200,000	16,487	216,487
2029	205,000	10,156	215,156
2030	210,000	3,413	213,413
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
	<u>\$ 2,350,000</u>	<u>\$ 543,219</u>	<u>\$ 2,893,219</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 29, 2016

S E R I E S - 2 0 1 5 A

Due During Fiscal Years Ending February 28	Principal Due April 1	Interest Due April 1/ October 1	Total
2017	55,000	98,781	153,781
2018	60,000	97,631	157,631
2019	65,000	96,219	161,219
2020	65,000	94,431	159,431
2021	70,000	92,406	162,406
2022	75,000	90,138	165,138
2023	80,000	87,619	167,619
2024	80,000	85,018	165,018
2025	85,000	82,284	167,284
2026	90,000	79,331	169,331
2027	95,000	76,209	171,209
2028	100,000	72,919	172,919
2029	105,000	69,459	174,459
2030	115,000	65,747	180,747
2031	120,000	61,781	181,781
2032	125,000	57,569	182,569
2033	130,000	53,106	183,106
2034	140,000	48,294	188,294
2035	145,000	43,128	188,128
2036	200,000	36,750	236,750
2037	200,000	28,875	228,875
2038	200,000	20,625	220,625
2039	200,000	12,375	212,375
2040	200,000	4,125	204,125
	<u>\$ 2,800,000</u>	<u>\$ 1,554,820</u>	<u>\$ 4,354,820</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 29, 2016

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending February 28	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2017	\$ 305,000	\$ 331,724	\$ 636,724
2018	310,000	324,389	634,389
2019	320,000	316,574	636,574
2020	335,000	307,161	642,161
2021	350,000	296,164	646,164
2022	355,000	284,554	639,554
2023	380,000	272,134	652,134
2024	395,000	258,833	653,833
2025	405,000	244,865	649,865
2026	425,000	230,125	655,125
2027	440,000	214,641	654,641
2028	470,000	198,186	668,186
2029	485,000	180,459	665,459
2030	500,000	161,781	661,781
2031	475,000	141,603	616,603
2032	495,000	119,600	614,600
2033	510,000	96,575	606,575
2034	540,000	72,449	612,449
2035	445,000	50,253	495,253
2036	200,000	36,750	236,750
2037	200,000	28,875	228,875
2038	200,000	20,625	220,625
2039	200,000	12,375	212,375
2040	200,000	4,125	204,125
	<u>\$ 8,940,000</u>	<u>\$ 4,204,820</u>	<u>\$ 13,144,820</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED FEBRUARY 29, 2016**

Description	Original Bonds Issued	Bonds Outstanding March 1, 2015
Montgomery County Municipal Utility District No. 98 Unlimited Tax Bonds - Series 2006	\$ 2,890,000	\$ 2,320,000
Montgomery County Municipal Utility District No. 98 Unlimited Tax Bonds - Series 2010	1,125,000	1,005,000
Montgomery County Municipal Utility District No. 98 Unlimited Tax Bonds - Series 2011	1,600,000	1,540,000
Montgomery County Municipal Utility District No. 98 Unlimited Tax Bonds - Series 2013	1,385,000	1,350,000
Montgomery County Municipal Utility District No. 98 Unlimited Tax Refunding Bonds - Series 2015	2,350,000	
Montgomery County Municipal Utility District No. 98 Unlimited Tax Bonds - Series 2015A	<u>2,800,000</u>	
TOTAL	<u>\$ 12,150,000</u>	<u>\$ 6,215,000</u>
Bond Authority:	<u>Tax Bonds*</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 30,000,000	\$ 30,000,000
Amount Issued	<u>9,800,000</u>	<u>130,000</u>
Remaining to be Issued	<u>\$ 20,200,000</u>	<u>\$ 29,870,000</u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding February 29, 2016</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 2,320,000	\$ 53,008	\$ -0-	Regions Bank Houston, TX
	40,000	46,630	965,000	Regions Bank Houston, TX
	30,000	69,761	1,510,000	Regions Bank Houston, TX
	35,000	53,825	1,315,000	Regions Bank Houston, TX
2,350,000		19,655	2,350,000	Regions Bank Houston, TX
<u>2,800,000</u>		<u>23,177</u>	<u>2,800,000</u>	Regions Bank Houston, TX
<u>\$ 5,150,000</u>	<u>\$ 2,425,000</u>	<u>\$ 266,056</u>	<u>\$ 8,940,000</u>	

Debt Service Fund cash and investment balances as of February 29, 2016: \$ 1,657,576

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 547,701

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

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

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2016	2015	2014
REVENUES			
Property Taxes	\$ 564,199	\$ 456,471	\$ 367,299
Water Service	274,461	221,775	209,278
Wastewater Service	474,093	385,074	353,813
Penalty and Interest	31,489	32,491	28,354
Tap Connection and Inspection Fees	92,325	70,725	69,375
Investment Revenues	4,744	3,424	2,899
Miscellaneous Revenues	3,435	2,623	2,578
TOTAL REVENUES	\$ 1,444,746	\$ 1,172,583	\$ 1,033,596
EXPENDITURES			
Professional Fees	\$ 93,860	\$ 90,574	\$ 83,473
Contracted Services	149,204	132,659	116,746
Purchased Services	521,329	404,672	383,430
Utilities	9,290	10,602	8,170
Repairs and Maintenance	133,818	104,684	73,938
Other	105,895	87,652	91,436
Capital Outlay	137,965		
TOTAL EXPENDITURES	\$ 1,151,361	\$ 830,843	\$ 757,193
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 293,385	\$ 341,740	\$ 276,403
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ - 0 -	\$ -0-	\$ 15,171
NET CHANGE IN FUND BALANCE	\$ 293,385	\$ 341,740	\$ 291,574
BEGINNING FUND BALANCE	1,291,772	950,032	658,458
ENDING FUND BALANCE	\$ 1,585,157	\$ 1,291,772	\$ 950,032

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2013	2012	2016	2015	2014	2013	2012
\$ 319,728	\$ 275,513	39.0 %	38.9 %	35.6 %	36.4 %	33.4 %
190,198	178,268	19.0	18.9	20.2	21.6	21.6
308,853	296,898	32.9	32.9	34.3	35.1	36.0
21,826	19,866	2.2	2.8	2.7	2.5	2.4
35,850	52,750	6.4	6.0	6.7	4.1	6.6
1,012	395	0.3	0.3	0.3	0.1	
2,035		0.2	0.2	0.2	0.2	
<u>\$ 879,502</u>	<u>\$ 823,690</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 70,720	\$ 74,314	6.5 %	7.7 %	8.1 %	8.0 %	9.0 %
102,470	87,381	10.3	11.3	11.3	11.7	10.6
340,335	332,327	36.1	34.5	37.1	38.7	40.3
7,775	6,376	0.6	0.9	0.8	0.9	0.8
56,536	66,300	9.3	8.9	7.2	6.4	8.0
64,080	71,069	7.3	7.5	8.8	7.3	8.6
15,171	5,000	9.5			1.7	0.6
<u>\$ 657,087</u>	<u>\$ 642,767</u>	<u>79.6 %</u>	<u>70.8 %</u>	<u>73.3 %</u>	<u>74.7 %</u>	<u>77.9 %</u>
<u>\$ 222,415</u>	<u>\$ 180,923</u>	<u>20.4 %</u>	<u>29.2 %</u>	<u>26.7 %</u>	<u>25.3 %</u>	<u>22.1 %</u>
<u>\$ -0-</u>	<u>\$ -0-</u>					
\$ 222,415	\$ 180,923					
<u>436,043</u>	<u>255,120</u>					
<u>\$ 658,458</u>	<u>\$ 436,043</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2016	2015	2014
REVENUES			
Property Taxes	\$ 877,745	\$ 647,622	\$ 506,536
Penalty and Interest	6,542	4,491	5,013
Investment Revenues	2,655	2,326	2,315
Miscellaneous Revenues	7,265		7
TOTAL REVENUES	\$ 894,207	\$ 654,439	\$ 513,871
EXPENDITURES			
Tax Collection Expenditures	\$ 33,150	\$ 27,333	\$ 23,489
Debt Service Principal	205,000	200,000	160,000
Debt Service Interest and Fees	268,956	292,250	236,429
Bond Issuance Costs	113,787		
TOTAL EXPENDITURES	\$ 620,893	\$ 519,583	\$ 419,918
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 273,314	\$ 134,856	\$ 93,953
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	\$ 49,666	\$	\$ 27,569
Refunding Bonds	2,350,000		
Payment to Refunded Bond Escrow Agent	(2,241,766)		
Bond Premium	6,065		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 163,965	\$ - 0 -	\$ 27,569
NET CHANGE IN FUND BALANCE	\$ 437,279	\$ 134,856	\$ 121,522
BEGINNING FUND BALANCE	1,109,517	974,661	853,139
ENDING FUND BALANCE	\$ 1,546,796	\$ 1,109,517	\$ 974,661
TOTAL ACTIVE RETAIL WATER CONNECTIONS	688	597	509
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	683	592	504

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2013	2012	2016	2015	2014	2013	2012
\$ 448,246	\$ 385,953	98.2 %	98.9 %	98.5 %	97.7 %	97.2 %
5,335	7,755	0.7	0.7	1.0	1.2	2.0
2,873	3,280	0.3	0.4	0.5	0.6	0.8
2,481		0.8			0.5	
<u>\$ 458,935</u>	<u>\$ 396,988</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 18,206	\$ 24,090	3.7 %	4.2 %	4.6 %	4.0 %	6.1 %
125,000	80,000	22.9	30.6	31.1	27.2	20.2
233,948	182,390	30.1	44.7	46.0	51.0	45.9
		12.7				
<u>\$ 377,154</u>	<u>\$ 286,480</u>	<u>69.4 %</u>	<u>79.5 %</u>	<u>81.7 %</u>	<u>82.2 %</u>	<u>72.2 %</u>
<u>\$ 81,781</u>	<u>\$ 110,508</u>	<u>30.6 %</u>	<u>20.5 %</u>	<u>18.3 %</u>	<u>17.8 %</u>	<u>27.8 %</u>
\$	\$ 36,268					
<u>\$ - 0 -</u>	<u>\$ 36,268</u>					
\$ 81,781	\$ 146,776					
771,358	624,582					
<u>\$ 853,139</u>	<u>\$ 771,358</u>					
<u>436</u>	<u>405</u>					
<u>431</u>	<u>401</u>					

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
FEBRUARY 29, 2016**

District Mailing Address - Montgomery County Municipal Utility District No. 98
c/o Schwartz Page & Harding, LLP
1300 Post Oak Blvd., Suite 1400
Houston, TX 77056

District Telephone Number - (713) 623-4531

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>February 29, 2016</u>	Expense Reimbursements for the year ended <u>February 29, 2016</u>	<u>Title</u>
Marion Dougherty	05/14 05/18 (Elected)	\$ 2,400	\$ 977	President
Anthony Dainard	05/12 05/16 (Elected)	\$ 1,800	\$ 435	Vice President
Andy Rodriguez, Jr.	05/14 05/18 (Elected)	\$ 2,550	\$ 1,043	Secretary
Ken Wolf	11/14 05/16 (Appointed)	\$ 2,100	\$ 1,134	Assistant Secretary
Kermit Smith	05/12 05/16 (Elected)	\$ 1,350	\$ 257	Director

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
June 3, 2016.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060). Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 98
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
FEBRUARY 29, 2016

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended February 29, 2016</u>	<u>Title</u>
Schwartz, Page & Harding, LLP	08/17/04	\$ 67,953 \$ 93,023	General Counsel/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	03/07/13	\$ 17,500	Auditor
Municipal Accounts & Consulting	08/17/04	\$ 27,754	Bookkeeper
Perdue Brandon Fielder Collins & Mott, L.L.	05/04/06	\$ 2,094	Delinquent Tax Attorney
Edminster, Hinshaw, Russ and Associates, Inc.	09/07/06	\$ 65,941	Engineer
FirstSouthwest, a Division of Hilltop Securities Inc.	08/17/04	\$ 89,303	Financial Advisor
Mark M. Burton	10/07/04	\$ -0-	Investment Officer
Municipal Operations & Consulting, Inc.	10/07/04	\$ 192,478	Operator
Wheeler & Associates, Inc.	10/07/04	\$ 22,852	Tax Assessor/ Collector

See accompanying independent auditor's report.

