

**STANLEY LAKE MUNICIPAL UTILITY DISTRICT
(Montgomery County, Texas)**

**PRELIMINARY OFFICIAL STATEMENT
DATED: SEPTEMBER 29, 2016**

**\$6,390,000
UNLIMITED TAX BONDS
SERIES 2016**

**BIDS DUE: 2:00 P.M., HOUSTON, TEXAS TIME
THURSDAY, OCTOBER 13, 2016**

**BIDS TO BE AWARDED: 12:30 P.M., HOUSTON, TEXAS TIME
FRIDAY, OCTOBER 14, 2016**



Financial Advisor

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 29, 2016

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

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM THE GROSS INCOME OF THE OWNERS OF THE BONDS FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER EXISTING STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS, AND IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "LEGAL MATTERS" AND "TAX MATTERS" HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION, INCLUDING A DESCRIPTION OF THE ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

The District will designate the Bonds as "qualified tax-exempt obligations for financial institutions." See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."

NEW ISSUE: BOOK-ENTRY-ONLY

RATINGS: S&P Global Ratings. "___"
See "SALE AND DISTRIBUTION OF THE BONDS – Municipal Bond Ratings" and "- Municipal Bond Insurance"

\$6,390,000

STANLEY LAKE MUNICIPAL UTILITY DISTRICT

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

UNLIMITED TAX BONDS, SERIES 2016

Dated: November 1, 2016

Due: July 1, as shown below

The \$6,390,000 Stanley Lake Municipal Utility District Unlimited Tax Bonds, Series 2016 (the "Bonds") are obligations of Stanley Lake Municipal Utility District (the "District") and are not obligations of the State of Texas, Montgomery County, Texas, the City of Conroe, Texas, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Montgomery County, Texas, or the City of Conroe, Texas, is pledged to the payment of the principal of or interest on the Bonds.

Interest on the Bonds accrues from November 1, 2016, and is payable on July 1, 2017 (an eight-month interest period), and on each January 1 and July 1 thereafter until the earlier of maturity or redemption. The Bonds maturing on and after July 1, 2027 shall be subject to redemption and payment at the option of the District, in whole, or from time to time, in part, on July 1, 2026, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Optional Redemption" herein.

The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interest in the Bonds. See "THE BONDS – Book-Entry-Only System" herein. Unless otherwise agreed between the Paying Agent, Wells Fargo Bank, N.A., in Minneapolis, Minnesota and a Bondholder, interest on the Bonds is payable by check or draft of the Paying Agent, dated as of the interest payment date and mailed by the Paying Agent to each Bondholder, as shown on the records of the Registrar on the close of business on the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). The Bonds will be issued only in fully registered form in denominations of \$5,000 of principal amount, or any integral multiple thereof.

The Bonds will mature in the amounts and on the dates and will bear interest at the rates and be reoffered as set forth below.

AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIP NUMBERS

Maturity July 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. _____ (b)	Maturity July 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. _____ (b)
2024	\$ 75,000	%	%		2033(c)	\$ 55,000	%	%	
2025	70,000				2034(c)	640,000			
2026	70,000				2035(c)	660,000			
2027(c)	70,000				2036(c)	685,000			
2028(c)	65,000				2037(c)	710,000			
2029(c)	65,000				2038(c)	735,000			
2030(c)	60,000				2039(c)	740,000			
2031(c)	60,000				2040(c)	770,000			
2032(c)	60,000				2041(c)	800,000			

- (a) The yields of the Bonds were established by and are the sole responsibility of the Initial Purchaser (as defined herein), and may subsequently be changed. The yields indicated above represent the lower of the yields resulting when priced to maturity or the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Service, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the registered owners of the Bonds. Neither the District, the Financial Advisor, nor the Initial Purchaser are responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (c) The Bonds maturing on July 1, 2027 and thereafter, are subject to redemption on July 1, 2026 or any date thereafter, at the option of the District, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Optional Redemption."

The Bonds are issued out of the \$31,790,000 principal amount of unlimited tax bonds authorized by the District's voters and are issued for the purposes (i) the construction of Water Well No. 4; (ii) the construction of Water Plant No. 4; (iii) the construction of a waterline from Water Plant No. 4 to the System; (iv) construction of Westland Bunker wastewater collection lift station, (v) construction of Westland Bunker wastewater collection force main; and (vi) to pay certain bond issuance costs associated with the Bonds. Following the issuance of the Bonds, \$25,400,000 in principal amount of unlimited tax bonds authorized by the District's voters will remain unissued, all of which may also be used for refunding purposes. See "THE BONDS – Use and Distribution of Bond Proceeds." The Bonds, when issued, will constitute valid and binding obligations of the District, payable from proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment."

The Bonds are offered when, as and if issued, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bacon & Wallace, LLP, Houston, Texas, Bond Counsel for the District, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. See "LEGAL MATTERS." Delivery of the Bonds through DTC is expected to be on or about November 15, 2016.

**BIDS DUE: THURSDAY, OCTOBER 13, 2016
AT 2:00 P.M., HOUSTON, TEXAS TIME**

**BIDS TO BE AWARDED: FRIDAY, OCTOBER 14, 2016
AT 12:30 P.M., HOUSTON, TEXAS TIME**

This Preliminary Official Statement and the Information contained herein are subject to completion or amendment without notice. 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 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.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended, and in effect on the date of this Official Statement, this document constitutes an "official statement" of the District 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 by the District to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District.

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

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Bacon & Wallace, L.L.P., 6363 Woodway, Suite 800, Houston, Texas 77057, upon payment of duplication costs.

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 condition of the District or other matters described herein since the date hereof.

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, THE INITIAL PURCHASER NOR BOND COUNSEL MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

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APPENDIX A – Audited Financial Statements of the District

INTRODUCTORY STATEMENT

Information contained in this Official Statement, including Appendix A, has been obtained from Stanley Lake Municipal Utility District (the "District") in connection with the offering by the District of its \$6,390,000 Unlimited Tax Bonds, Series 2016 (the "Bonds") identified on the cover page hereof.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest costs, which bid was tendered by _____ ("Initial Purchaser") to purchase the Bonds bearing the interest rates shown on the cover page hereof 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, as amended.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of certificates 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 bondhouse, broker or similar person acting in the capacity of underwriter or wholesaler. The District has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Initial Purchaser at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms respecting the offering and 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 offering price, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

Securities Laws

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

Municipal Bond Rating

In connection with the sale of the Bonds, the District has made application to S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). S&P has assigned an underlying rating of "____" to the District's credit.

An explanation of the significance of the foregoing ratings may only be obtained from S&P. The foregoing ratings express only the view of S&P at the time the ratings are given, and the District makes no representation as to the appropriateness of such ratings. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

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

Municipal Bond Insurance

The District has applied to various municipal bond insurance companies' for qualification of the Bonds for bond insurance. Potential purchasers may bid the Bonds with or without bond insurance. If the Initial Purchaser bids the Bonds with bond insurance, the cost of the bond insurance premium must be paid for by the Initial Purchaser. The District will pay for the cost of the S&P rating. The Initial Purchaser must pay for the cost of any rating other than the S&P rating. If the Initial Purchaser purchases the Bonds with bond insurance and, subsequent to the sale date and prior to the closing date, the bond insurer's credit rating is downgraded; the Initial Purchaser is still obligated to accept delivery of the Bonds. Information relative to the cost of the insurance premium will be available from the bond insurance companies on the day of the sale.

Bond Insurance Risk Factors

If the Initial Purchaser chooses to purchase a municipal bond insurance policy (the "Policy") the following risk factors related to municipal bond insurance policies apply.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the bond insurer chooses to pay such amounts at an earlier date.

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

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

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

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

Neither the District nor the Initial Purchaser has made independent investigation into the claims-paying ability of the bond insurer and no assurance or representation regarding the financial strength or projected financial strength of the bond insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal of and interest on the Bonds and the claims-paying ability of the bond insurer, particularly over the life of the investment.

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

The Issuer	Stanley Lake Municipal Utility District (the "District"), a political subdivision of the State of Texas, is located in Montgomery County, Texas. See "THE DISTRICT."
The Bonds.....	\$6,390,000 Unlimited Tax Bonds, Series 2016 (the "Bonds"), are dated November 1, 2016 and mature July 1 in each of the years and in the amounts shown on the cover page hereof. Interest on the Bonds accrues from November 1, 2016, and is payable initially on July 1, 2017, and on each January 1 and July 1 thereafter until the earlier of maturity or prior redemption. See "THE BONDS - Description."
Other Characteristics	The Bonds are issued in fully registered form in integral multiples of \$5,000. The Bonds maturing on and after July 1, 2027 are subject to redemption prior to maturity from time to time, at the option of the District, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date of redemption, on July 1, 2026 or any date thereafter. See "THE BONDS – Optional Redemption."
Paying Agent/Registrar.....	The initial paying agent/registrars are Wells Fargo Bank, N.A., Minneapolis, Minnesota (the "Paying Agent/Registrar"). The District intends to use the book-entry-only system of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of the DTC to discontinue such system. (See "THE BONDS - Book-Entry-Only System.")
Source of Payment.....	The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of Montgomery County, the City of Conroe, the State of Texas, or any entity other than the District. See "THE BONDS - Source of Payment."
Payment Record.....	The District has never defaulted in the timely payment of the principal and interest on its outstanding bonds.
Authority for Issuance	The Bonds are issued pursuant to an order (the "Bond Order") to be adopted by the Board on the date of the sale of the Bonds; Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended; and elections authorizing issuance of bonds. See "THE BONDS – Authority for Issuance."
Use of Proceeds	The proceeds of the Bonds will be used for (i) the construction of Water Well No. 4; (ii) the construction of Water Plant No. 4; (iii) the construction of a waterline from Water Plant No. 4 to the System; (iv) construction of Westland Bunker wastewater collection lift station, (v) construction of Westland Bunker wastewater collection force main; and (vi) to pay certain bond issuance costs associated with the Bonds. See "THE BONDS – Use and Distribution of Bond Proceeds."
Outstanding Bonds	The District has previously issued \$3,150,000 Waterworks and Sewer System Unlimited Tax and Revenue Bonds, Series 1973 (the "Series 1973 Bonds"); \$125,000 Waterworks Unlimited Tax and Revenue Bonds, Series 1992 (the "Series 1992 Bonds"); \$85,000 Sewer System Unlimited Tax and Revenue Bonds, Series 1992A (the "Series 1992A Bonds"); \$2,610,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue and Refunding Bonds, Series 1997 (the "Series 1997 Bonds"); \$1,900,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1998 (the "Series 1998 Bonds"); \$3,440,000 Unlimited Tax Bonds, Series 2002 (the

"Series 2002 Bonds"); \$5,400,000 Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds"); \$4,745,000 Unlimited Tax Refunding Bonds, Series 2011 (the "Series 2011 Bonds"); and \$5,370,000 Unlimited Tax Bonds, Series 2014 (the "Series 2014 Bonds"). As of September 30, 2016, \$31,790,000 principal amount of the bonds issued by the District remain outstanding (the "Outstanding Bonds"). See "THE BONDS – Outstanding Bonds."

- Tax Exemption In the opinion of Bond Counsel, under existing law (i) interest on the Bonds is excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" herein, and is not a specific preference item or included in a corporation's adjusted current earnings for purposes of the alternative minimum tax and (ii) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not "private activity bonds." See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.
- Qualified Tax-Exempt Bonds The District will designate the Bonds as qualified tax-exempt obligations for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."
- Municipal Bond Rating S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), has assigned an underlying rating to the Bonds of "___". An explanation of the ratings may be obtained from S&P, 55 Water Street, New York, New York 10041. The fees associated with the ratings assigned to the District by S&P will be paid by the District; however, the fee associated with the ratings provided by other agencies, if any, will be at the expense of the Initial Purchaser. See "Municipal Bond Rating."
- Municipal Bond Insurance Applications have been made to issue a commitment for municipal bond guaranty insurance on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, and fees charged by any rating companies other than S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), will be at the option of the Initial Purchaser. See "SALE AND DISTRIBUTION OF THE BONDS - Municipal Bond Insurance."
- Bond and Tax Opinion Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. See "LEGAL MATTERS."
- Disclosure Counsel McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

THE DISTRICT

- Description Stanley Lake Municipal Utility District, a political subdivision of the State of Texas located within Montgomery County contains approximately 855.1507 acres located approximately 12.5 miles west of the central business district of Conroe, Texas. The District lies entirely within the extraterritorial jurisdiction of the City of Conroe (the "City") and is located within Montgomery Independent School District. See "THE DISTRICT - General" and "- Description."
- Authority The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT - General."
- Status of Development According to the District's Engineer, as of September 9, 2016, underground water supply and distribution, wastewater collection, wastewater lift station and force main, storm drainage and street paving has been completed to serve approximately 600 acres of residential property (1,941 single-family lots) and

approximately 175 acres of commercial property within the District. As of such date, the District contains 1,163 single-family homes and townhomes and 778 vacant developed lots.

The District includes the residential subdivisions of Cape Conroe, Sections 1 and 2; Harbor Point; Strawberry Hill Estates; Stewart Hills; Riverstone Pointe; Blue Heron Bay, Sections 1 and 2; South Shore Estates, Sections 1 through 5; The Reserve on Lake Conroe; La Vie; and The Cliffs at South Shore. Primary residences make up approximately 85% of homeownership and approximately 15% are secondary homes. There are approximately 778 vacant developed lots within the District, the majority of which are owned by individuals. New home construction is conducted on such lots owned by individuals using independent builders or, from time to time, by home construction companies that purchase lots and construct homes thereon. There are currently two developments under construction with the District, La Vie, Section 1 and 2 and The Reserve on Lake Conroe (formerly Crescent Cove).

La Vie is being developed by Doug Joslyn. Section 1 has been platted on 2.385 acres and consists of 12 lake front townhomes with 0.581 acres of common space. The townhomes are priced from the mid-\$900,000. Section 2 has been preliminarily platted on 4.933 acres and will consist of 14 single family residential lots with 0.738 acres of common space.

The Reserve on Lake Conroe is being developed by Lake Conroe Holdings LLC. Section 3 (formerly Crescent Cove) has been platted on 4.593 acres and consists of 16 lots, of which there are currently 3 single-family homes. There are other sections in preliminary stages of development and will contain 240 lots that will be approximately 50'x125' each.

Commercial development in the District has been undertaken on approximately 175 acres of unrestricted commercial reserves subdivided as Blue Heron Bay, Montgomery Business Park, South Shore Plaza, Sunrise Ranch, Section 1, Walden Road Business Park, Western Hills, Sections 1 and 2, and other separate commercial tracts. Commercial development includes a retail shopping, such as Wal-Mart and True Value, restaurants, medical offices, banking centers, and a data center for T-Systems North America.

Although the foregoing description of the above-ground improvements that are located within the District is accurate as of the date of this Official Statement, the District cannot represent the composition thereof in the future, nor can the District represent that any particular level of occupancy of such improvements will continue in the future.

Currently, there are approximately 80 acres within the District which are developable but undeveloped. The remaining approximately 80 acres are available for either commercial or residential development. Such undeveloped acres are owned by multiple parties, none of which has reported any definitive development plan for its undeveloped acres to the District.

There is no commitment by or legal requirement of any party to the District to proceed at any particular rate or according to any specified plan with the development of land within the District or of any homebuilder to proceed at any particular pace with the construction of homes in the District, and there is no restriction on any land owner's right to sell its land. Therefore the District can make no representation about the probability of future development, if any, or the rate of home construction activity in the District. Furthermore, no representations can be made by the District whether any commercial development will be conducted in the District in addition to the commercial development which has occurred therein to date, or as to any level of occupancy of any of above-ground improvements which have been constructed in the District.

Amenities which have been constructed within the District include a clubhouse, private marina, swimming pool, tennis court, a pavilion, boat launch and fishing pier. The District contains approximately 5 miles of shore line on Lake Conroe.

INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

- Selected Financial Information -
(Unaudited)

2016 Assessed Valuation..... (100% of market value as of January 1, 2016) See "TAX DATA" and "TAXING PROCEDURES."		\$ 408,057,935 (a)
Direct Debt:		
Outstanding Bonds (as of _____, 2016)		\$ 13,670,000
The Bonds		<u>6,390,000</u>
Total		<u>\$ 20,060,000</u>
Estimated Overlapping Debt.....		<u>\$ 29,804,944 (b)</u>
Total Direct and Estimated Overlapping Debt.....		<u>\$ 49,864,944</u>
Ratio of Direct Debt to: As a percentage of 2016 Assessed Valuation (\$408,057,935) See "DISTRICT DEBT."		4.92 %
Ratio of Direct and Estimated Overlapping Debt to: As a percentage of 2016 Assessed Valuation (\$408,057,935) See "DISTRICT DEBT."		12.22 %
Debt Service Fund Balance (as of August 31, 2016).....		\$ 804,108 (c)
General Fund Balance (as of August 31, 2016).....		808,579 (c)
Capital Projects Fund Balance (as of August 31, 2016)		1,634,320 (d)
2016 Tax Rate per \$100 of Assessed Valuation (e)		
Debt Service	\$0.28	
Maintenance and Operations	<u>0.25</u>	
Total.....		\$ 0.53 (f)
Average Percentage of Total Tax Collections (2011-2015)		99.4 %
Estimated Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2016-2041).....		\$ 1,275,680
Estimated Maximum Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2031).....		\$ 1,364,960
Tax Rate per \$100 of Assessed Valuation required to pay Estimated Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2016-2041) based upon 2016 Assessed Valuation (\$408,057,935) at 97% tax collections.....		\$ 0.3223
Tax Rate per \$100 of Assessed Valuation required to pay Estimated Maximum Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2031) based upon 2016 Assessed Valuation (\$408,057,935) at 97% tax collections.....		\$ 0.3448
Number of Single-Family Housing Units as of September 9, 2016		1,163

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). All property located in the District is valued on the tax rolls by the Appraisal District at 100% of estimated market value as of January 1 of each year. The District's tax roll is certified by the Appraisal Review Board.
- (b) See "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement."

- (c) Unaudited. Neither Texas law nor the Bond Order requires that any particular amount be maintained in the Debt Service Fund or General Fund at any time. In addition, one year of capitalized interest on the Bonds and accrued interest from the dated date to the date of closing will be deposited in the Debt Service Fund.
- (d) Unaudited. The District plans to use \$1,187,366 in surplus capital projects funds to reduce the amount of bonds issued to fund the proposed projects.
- (e) Represents the District's proposed tax rate. The District is scheduled to approve the proposed tax rate at the October 14, 2016 Board meeting.
- (f) The Texas Commission on Environmental Quality (the "TCEQ") in its order authorizing the District to issue the Bonds advised the District to levy a debt service tax rate of not less than \$0.35 per \$100 of assessed valuation. Based on the District's current debt service fund balance, the District intends to levy a debt service tax rate of \$0.25 per \$100 assessed valuation.

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\$6,390,000

STANLEY LAKE MUNICIPAL UTILITY DISTRICT

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

UNLIMITED TAX BONDS, SERIES 2016

INTRODUCTION

This Official Statement and the Appendix hereto provide certain information with respect to the issuance by Stanley Lake Municipal Utility District (the "District") in connection with the offering by the District of its \$6,390,000 Unlimited Tax Bonds, Series 2016 (the "Bonds").

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

There follows in this Official Statement descriptions of the Bonds, the plan of financing, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District, c/o Bacon & Wallace, L.L.P. ("Bond Counsel"), 6363 Woodway, Suite 800, Houston, Texas 77057, upon payment of duplication costs. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

THE BONDS

Description

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the District upon request and payment of the costs of duplication thereof. 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.

The Bonds are dated November 1, 2016 and bear interest from such date at the stated interest rates indicated under "AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIP NUMBERS" on the cover page hereof, which interest is payable initially on July 1, 2017, and each January 1 and July 1 thereafter until the earlier of maturity or prior redemption. The Bonds mature on July 1 in each of the years and in the amounts set forth on the cover page hereof. The Bonds are issued in fully registered form in denominations of \$5,000 each or any multiple thereof. Principal of the Bonds is payable at the principal payment office of Wells Fargo Bank, N.A., Minneapolis, Minnesota (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. The record date (the "Record Date") for the interest payable on any interest payment date means the last business day of the month next preceding such interest payment date. The Bonds initially will be registered only to Cede & Co., the nominee of The Depository Trust Company pursuant to the Book- Entry-Only System described below.

In the event the Book-Entry-Only-System is discontinued, the Bonds may be transferred and exchanged on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity in any authorized denomination upon surrender of the Bonds to be exchanged at the principal payment office of the Paying Agent/Registrar. No service charge will be made for any transfer, but the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Optional Redemption

The Bonds maturing on July 1, 2027 and thereafter are subject to optional redemption prior to maturity, in whole or in part, on July 1, 2026, or any date thereafter, at the option of the District at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date of redemption. If fewer than all of the Bonds are redeemed at any time, the maturities of Bonds to be redeemed shall be selected by the District. If fewer than all of a maturity of Bonds is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot or other customary method that results in random selection, the

Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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 ("DTC"), New York, New York, 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, the Financial Advisor and the Initial Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District, the Financial Advisor and the Initial Purchaser cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to 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.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of each 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 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 Paying Agent/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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable dates 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement

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

Successor Paying Agent/Registrar

Provision is made in the Ordinance for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor paying agent/registrar (the "Successor Paying Agent/Registrar"), and the Successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any Successor Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the State, or any other entity duly qualified and legally authorized to serve as and perform the duties and service or paying agent/registrar for the Bonds.

Registration, Transfer and Exchange

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

Replacement of Bonds

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

Payment Record

The District has never defaulted in the timely payment of the principal of and interest on its previously issued bonds.

Outstanding Bonds

The District has previously issued \$3,150,000 Waterworks and Sewer System Unlimited Tax and Revenue Bonds, Series 1973 (the "Series 1973 Bonds"); \$125,000 Waterworks Unlimited Tax and Revenue Bonds, Series 1992 (the "Series 1992 Bonds"); \$85,000 Sewer System Unlimited Tax and Revenue Bonds, Series 1992A (the "Series 1992A Bonds"); \$2,610,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue and Refunding Bonds, Series 1997 (the "Series 1997 Bonds"); \$1,900,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1998 (the "Series 1998 Bonds"); \$3,440,000 Unlimited Tax Bonds, Series 2002 (the "Series 2002 Bonds"); \$5,400,000 Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds"); \$4,745,000 Unlimited Tax Refunding Bonds, Series 2011 (the "Series 2011 Bonds"); and \$5,370,000 Unlimited Tax Bonds, Series 2014 (the "Series 2014 Bonds"). As of September 30, 2016, \$31,790,000 principal amount of the bonds issued by the District remain outstanding (the "Outstanding Bonds").

Authority for Issuance

The Bonds are issued out of a total principal amount of \$31,790,000 unlimited tax bonds authorized at elections held within the District for that purpose on May 11, 2013 and November 3, 2015. The District intends to utilize the remaining \$5,190,000 in bonds authorized at the May 11, 2013 election, and \$1,200,000 in bonds authorized at the November 3, 2015 election. Following the issuance of the Bonds, \$25,400,000 of the principal amount of unlimited tax bonds for facilities will remain authorized but unissued pursuant to such elections. All of such bonds may also be issued for refunding purposes. See "- Issuance of Additional Debt" below.

The Bonds are issued pursuant to an Order of the TCEQ; the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended; Article XVI, Section 59, of the Texas Constitution, and general laws of the State of Texas.

Source of Payment

The Bonds, when issued, will constitute valid and binding obligations of the District, and the principal thereof and the interest thereon, together with the principal and interest on the Outstanding Bonds and such additional tax bonds of the District as may hereafter be authorized by District voters, if any, and subsequently issued, are payable from

and secured by the proceeds of a an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The District has the authority to levy an annual ad valorem tax without legal limitation as to rate or amount on all taxable property within the District for each year the Bonds are outstanding. In the Bond Order, the District has covenanted to establish a rate of taxation each year ample and sufficient to provide funds to pay the interest on the Bonds and to pay the principal when due, full allowance being made for delinquencies and costs of collection.

The Bonds are solely obligations of Stanley Lake Municipal Utility District and are not obligations of the State of Texas, Montgomery County, Texas, the City of Conroe, Texas, or any political subdivision or agency other than the District.

Defeasance

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

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

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

Amendments to Bond Order

The Bond Order contains provisions that the District may, without consent of or notice to any Registered Owner of the Bonds, amend, change or modify the Bond Order as may be required (a) by the provisions thereof, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein, or (c) in connection with any other change which is not to the prejudice of the Registered Owners of the Bonds. Except for such amendments, changes, or modifications, the District shall not amend, change or modify the Bond Order in any manner without the consent of the Registered Owners of the Bonds as described in the Bond Order. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

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 act in the same capacity as the previous Paying Agent/Registrar. In order to act as registrar for the Bonds, any paying agent/registrar selected by the District shall be a national or state banking corporation organized under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority.

Issuance of Additional Debt

The District has reserved the right in the Bond Order to issue additional bonds necessary to provide improvements and facilities consistent with the purposes for which the District was created and for refunding purposes. The Bonds are issued out of the \$31,790,000 unlimited tax bonds authorized by the District voters for providing improvements and facilities. Following the issuance of the Bonds, the District will have the right to issue an additional \$25,400,000 in unlimited tax bonds for facilities as authorized by District voters, all of which may also be used for refunding purposes. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District.

Annexation and Consolidation

Under Texas law, the territory within the District may be annexed by a city within whose extraterritorial jurisdiction the District lies without the consent of the District or its residents, subject to compliance by such City with various requirements of Chapter 43, Texas Local Government Code, as amended. If the District is abolished, the city must assume the assets, functions and obligations of the District, including the Bonds. The District lies within the exclusive extraterritorial jurisdiction of the City of Conroe, Texas (the "City"). Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, no representation is made concerning the likelihood of annexation by the City. Moreover no representation is made as to the ability of the City to make debt service payments should annexation occur.

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

Strategic Partnership Agreement

Under Texas law, a district is authorized to enter into a strategic partnership agreement with another political subdivision, such as a city, to set forth the services that would be provided and funded by the parties and under which the district would continue to exist for an extended period if the land within the district, or any portion thereof, were to be annexed for full or limited purposes by the city. The terms of any such agreement would be determined by the city and the district, and could provide for limitations on the timing of annexation of the district by the city, the continuation of the district as a limited district following general purpose annexation by the city, the conversion of a limited purpose annexation to a general purpose annexation, or the payment of a fee in lieu of annexation to be derived from residential property within the district based on the costs of providing municipal services to the district.

The District has entered into a Strategic Partnership Agreement (the "Agreement") with the City of Conroe (the "City") on May 3, 2002, regarding a commercial tract partially located within the boundaries of the City and partially located within the boundaries of the District. The Agreement provides that the City annex the tract for full municipal purposes. Both the District and the City still levy their respective ad valorem taxes upon the tract that is located within their jurisdictional boundaries. The District, however, owns and operates the water and wastewater system and provides water and wastewater services to the commercial tract on the same basis that it provides similar services to in-district customers. In return for providing these services, the City pays annually to the District an amount equal to the ad valorem tax generated by the City on the portion of the commercial tract located within the City. The City will make these payments for a twenty-five (25) year period following annexation. During the year ended September 30, 2015, the District received \$22,426 from the City under this Agreement. As of August 31, 2016, the District has received \$27,755 from the City for fiscal year 2016. Payments under the Agreement are not pledged to the payment of the Bonds.

Registered Owners' Remedies

The Bond Order provides that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to levy adequate taxes to make such payments or to observe and perform other covenants, obligations or conditions in the Bond Order. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

The Bond Order provides no additional remedies to a Registered Owner. The Bond Order does not provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Based on recent Texas court decisions, it is unclear whether, §49.066, Texas Water Code, effectively waive governmental immunity of a municipal utility district for suits for money damages. Even if the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property within the District or sell property of the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 municipal bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners. See "Bankruptcy Limitation to Registered Owners' Rights" below.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. §901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain the approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that 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. The District may not be placed into bankruptcy involuntarily.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

Legal Investment and Eligibility to Secure Public Funds in Texas

Section 49.186 of the Texas Water Code provides as follows:

- (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.

Use and Distribution of Bond Proceeds

The proceeds of the Bonds will be used for (i) the construction of Water Well No. 4; (ii) the construction of Water Plant No. 4; (iii) the construction of a waterline from Water Plant No. 4 to the System; (iv) construction of Westland Bunker wastewater collection lift station, (v) construction of Westland Bunker wastewater collection force main; and (vi) to pay certain bond issuance costs associated with the Bonds. The District’s present estimate of the use of the proceeds of the Bonds, as approved by the TCEQ, is as follows:

<u>Construction Costs</u>	<u>District’s Share</u>
A. Developer Contribution Items	
1. None	
B. District Items	
1. Water Well No. 4	\$1,800,000
2. Water Plant No. 4	2,000,000
3. Waterline – Water Plant No. 4 to System	320,000
4. Westland Bunker Wastewater Collection Extension – Lift Station	680,000
5. Westland Bunker Wastewater Collection Extension – Force Main	500,000
6. Contingencies	530,000
7. Engineering Testing	<u>874,500</u>
Total District Items	<u>\$6,704,500</u>
TOTAL CONSTRUCTION COSTS	\$6,704,500
Less Use of Series 2009 and 2014 Surplus Funds	<u>(1,187,366)</u>
NET CONSTRUCTION COSTS	\$5,517,134
<u>Nonconstruction Costs</u>	
A. Legal Fees (2.5%)	\$ 159,750
B. Fiscal Agent Fees (1.5%)	95,850
C. Capitalized Interest	243,276
D. Bond Discount (3%)	191,700
E. Bond Issuance Expenses	96,025
F. Bond Application Report Costs	63,900
G. Attorney General Fee	6,390
H. TCEQ Bond Issuance Fee	<u>15,975</u>
TOTAL NONCONSTRUCTION COSTS	<u>\$ 872,866</u>
TOTAL BOND ISSUE REQUIREMENT	<u>\$6,390,000</u>

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

DISTRICT DEBT

General

The following tables and calculations relate to the Bonds and the Outstanding Bonds. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District, and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the District.

2016 Assessed Valuation.....	\$	408,057,935 (a)
(100% of market value as of January 1, 2016)		
See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt:		
Outstanding Bonds (as of _____, 2016)	\$	13,670,000
The Bonds		<u>6,390,000</u>
Total	\$	<u>20,060,000</u>
Estimated Overlapping Debt.....	\$	<u>29,804,944 (b)</u>
Total Direct and Estimated Overlapping Debt.....	\$	<u>49,864,944</u>
Ratio of Direct Debt to: As a percentage of 2016 Assessed Valuation (\$408,057,935)		4.92 %
See "DISTRICT DEBT."		
Ratio of Direct and Estimated		
Overlapping Debt to: As a percentage of 2016 Assessed Valuation (\$408,057,935)		12.22 %
See "DISTRICT DEBT."		
Debt Service Fund Balance (as of August 31, 2016).....	\$	804,108 (c)
General Fund Balance (as of August 31, 2016).....		808,579 (c)
Capital Projects Fund Balance (as of August 31, 2016).....		1,634,320 (d)
2016 Tax Rate per \$100 of Assessed Valuation (e)		
Debt Service	\$0.28	
Maintenance and Operations	<u>0.25</u>	
Total.....	\$	\$0.53 (f)
Average Percentage of Total Tax Collections (2010-2014)		99.4 %
Estimated Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2016-2041).....	\$	1,275,680
Estimated Maximum Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2031).....	\$	1,364,960
Tax Rate per \$100 of Assessed Valuation required to pay Estimated Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2016-2041) based upon 2016 Assessed Valuation (\$408,057,935) at 97% tax collections.....	\$	0.3223
Tax Rate per \$100 of Assessed Valuation required to pay Estimated Maximum Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2031) based upon 2016 Assessed Valuation (\$408,057,935) at 97% tax collections.....	\$	0.3448
Number of Single-Family Housing Units as of September 9, 2016		1,163

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). All property located in the District is valued on the tax rolls by the Appraisal District at 100% of estimated market value as of January 1 of each year. The District's tax roll is certified by the Appraisal Review Board.
- (b) See "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement."
- (c) Unaudited. Neither Texas law nor the Bond Order requires that any particular amount be maintained in the Debt Service Fund or General Fund at any time. In addition, one year of capitalized interest on the Bonds and accrued interest from the dated date to the date of closing will be deposited in the Debt Service Fund.
- (d) Unaudited. The District plans to use \$1,187,366 in surplus capital projects funds to reduce the amounts issued to fund the proposed projects.
- (e) Represents the District's proposed tax rate. The District is scheduled to approve the proposed tax rate at the October 14, 2016 Board meeting.
- (f) The TCEQ in its order authorizing the District to issue the Bonds advised the District to levy a debt service tax rate of not less than \$0.35 per \$100 of assessed valuation. Based on the District's current debt service fund balance, the District intends to levy a debt service tax rate of \$0.25 per \$100 assessed valuation.

Pro-Forma Debt Service Requirements

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

Calendar Year	Outstanding Debt Service Requirements	The Bonds		Total Debt Service Requirements
		Principal (Due July 1)	Interest*	
2016	\$ 1,085,245		\$ 243,086	\$ 1,085,245
2017	1,085,395		265,185	1,328,481
2018	1,084,820		265,185	1,350,005
2019	1,088,370		265,185	1,353,555
2020	1,091,895		265,185	1,357,080
2021	1,094,495		265,185	1,359,680
2022	1,096,028		265,185	1,361,213
2023	1,096,480		265,185	1,361,665
2024	1,020,933	\$ 75,000	265,185	1,361,118
2025	1,028,285	70,000	262,073	1,360,358
2026	1,033,473	70,000	259,168	1,362,640
2027	1,036,568	70,000	256,263	1,362,830
2028	1,042,978	65,000	253,358	1,361,335
2029	1,047,128	65,000	250,660	1,362,788
2030	1,054,428	60,000	247,963	1,362,390
2031	1,059,488	60,000	245,473	1,364,960
2032	1,061,473	60,000	242,983	1,364,455
2033	1,066,033	55,000	240,493	1,361,525
2034	418,513	640,000	238,210	1,296,723
2035	423,856	660,000	211,650	1,295,506
2036	428,325	685,000	184,260	1,297,585
2037	431,450	710,000	155,833	1,297,283
2038	433,675	735,000	126,368	1,295,043
2039		740,000	95,865	835,865
2040		770,000	65,155	835,155
2041		800,000	33,200	833,200
Totals	<u>\$21,309,334</u>	<u>\$6,390,000</u>	<u>\$5,468,356</u>	<u>\$33,167,683</u>

Estimated Average Annual Requirements (2016-2041).....	\$1,275,680*
Estimated Maximum Annual Requirement (2031).....	\$1,364,960*

* Preliminary, subject to change.

Estimated Direct and Overlapping Debt Statement

The following statement indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the Assessed Valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes.

Taxing Jurisdiction	Debt as of September 1, 2016	Percent	Overlapping
			Amount
Montgomery County	\$426,470,000	0.77%	\$ 3,283,819
Montgomery ISD	353,615,000	7.50	<u>26,521,125</u>
TOTAL ESTIMATED OVERLAPPING			\$29,804,944
The District			<u>20,060,000 (a)</u>
Total Direct and Estimated Overlapping Debt			<u>\$49,864,944</u>

(a) Includes the Bonds.

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

Debt Ratios

	% of 2016 Assessed Valuation
Direct Debt	4.92%
Direct and Estimated Overlapping Debt	12.22%

Under Texas law, ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy and collect ad valorem taxes for operation and maintenance purposes, and such taxes have been authorized by the duly qualified voters of the District in an amount not to exceed \$0.25 per \$100 assessed valuation.

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and the Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under the caption "THE BONDS - Source of Payment." The District proposes to levy a debt service tax in the amount of \$0.28 per \$100 of assessed valuation for the 2016 tax year. The Board is also authorized to levy and collect annual ad valorem taxes for the administration and maintenance of the District and the System and for the payment of certain contractual obligations if such taxes are authorized by vote of the District's electors at an election. The District's voters have authorized the levy of such a maintenance tax in the maximum amount of \$0.25 per \$100 of assessed valuation. The District proposes to levy a maintenance tax in the amount of \$0.25 per \$100 of assessed valuation for the 2016 tax year. See "TAX DATA - Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

The Texas Property 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 within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery Central Appraisal Review Board (the "Appraisal Review Board"). 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 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 and of certain disabled persons to the extent deemed advisable by the Board. For 2016, the District granted an over 65/disabled exemption of \$25,000. In addition, the District would be required to call such an election upon petition by 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. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, to between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-In-Transit Exemption" is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if such property is acquired in or imported into Texas for assembling, storing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. 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. For the tax year 2016 and subsequent years, the District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

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 market value of residential homesteads, but not less than \$10,000, 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 2016, the District granted a general residential homestead exemption of \$10,000.

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.

The Property Tax Code 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.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Debt service and contract tax rates cannot be changed by a rollback election.

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, including such taxes for a period of three (3) years to five (5) years for agricultural use, timberland or open space land prior to the loss of the designation. As of January 1, 2016, no land within the District was designated for agricultural use, open space or timberland.

Tax Abatement

The City of Conroe and Montgomery County may designate all or part of the District as a reinvestment zone, and the District, Montgomery County, Montgomery Independent School District, and (if it were to annex the area) the City of Conroe may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten 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. To date, none of the area within the District has been designated as a reinvestment zone. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by other taxing jurisdictions.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: (a) the valuation of property within the District as of the preceding January 1, and (b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. However, a person who is sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns and occupies the property as his residential homestead. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional twenty percent (20%) penalty for collection costs of a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the person who owns or acquires the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year upon the property. The District's tax lien is on a parity with the tax liens of the other state and local jurisdictions levying taxes on property within the District. Whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. In the absence of such federal law, the District's tax lien takes priority over a lien of the United States. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit at any time after taxes become delinquent to foreclose its 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 also be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by the effects of market conditions on the foreclosure sales price, by the taxpayer's right to redeem the property (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records), or by bankruptcy proceedings which restrain or stay the collection of a taxpayer's debts.

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds, the Bonds and any future tax-supported bonds which may be issued from time to time as authorized. The Board covenants in the Bond Order to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. The District proposes to levy a debt service tax for the 2016 tax year of \$0.28 per \$100 of assessed valuation.

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 electorate. The District voters have authorized the levy of such a maintenance tax in an amount not to exceed \$0.25 per \$100 of 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, the Outstanding Bonds and any tax supported bonds which may be issued in the future. The District proposes to levy a maintenance tax for the 2016 tax year of \$0.25 per \$100 of assessed valuation. See "Tax Rate Distribution" below.

Tax Collection History

The following statement of tax collections sets forth in condensed form the historical Assessed Valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District's annual audited financial statements, for more complete information.

Tax Year	Assessed Valuation (a)	Tax Rate/ \$100 (b)	Adjusted Levy	Current Collections	Year Ending 9/30	% of Collections as of 7/31/2016
2006	\$195,723,080	\$0.5800	\$ 1,135,251	97.8%	2007	99.9%
2007	224,278,147	0.5000	1,122,329	98.3	2008	99.9
2008	247,565,911	0.4900	1,213,869	97.3	2009	99.9
2009	278,469,869	0.5200	1,453,385	98.1	2010	99.9
2010	287,501,748	0.5200	1,491,339	98.1	2011	99.9
2011	301,698,795	0.5100	1,536,515	99.2	2012	99.8
2012	309,655,908	0.5000	1,546,501	98.9	2013	99.8
2013	318,440,208	0.5200	1,654,977	99.6	2014	99.7
2014	339,271,903	0.5300	1,787,919	99.1	2015	99.5
2015	375,379,254	0.5300	1,982,188	98.1	2016	98.1
2016	408,057,935	0.5300	2,162,707	-0-	2017	-0- (c)

(a) Value may differ from those shown elsewhere in this Official Statement due to subsequent adjustments to the tax roll.

(b) Per \$100 of Assessed Valuation. See "Tax Rate Distribution" below.

(c) In the process of collection.

Tax Rate Distribution

	2016 (a)	2015	2014	2013	2012
Debt Service	\$0.2800	\$0.2800	\$0.2800	\$0.2700	\$0.2500
Maintenance	0.2500	0.2500	0.2500	0.2500	0.2500
Total	<u>\$0.5300</u>	<u>\$0.5300</u>	<u>\$0.5300</u>	<u>\$0.5200</u>	<u>\$0.5000</u>

(a) The District intends to set the 2016 tax rate at its October 14, 2016 Board meeting.

Analysis of Tax Base

The following table illustrates the District's total assessed value in the years 2012-2016 tax years by type of property.

Type of Property	2016 Assessed Value	2015 Assessed Value	2014 Assessed Value	2013 Assessed Value	2012 Assessed Value
Land	\$ 88,479,810	\$ 87,061,620	\$ 54,978,110	\$ 54,850,490	\$ 52,227,728
Improvements	312,746,660	283,334,030	274,130,700	255,284,700	245,582,100
Personal Property	36,505,074	38,076,279	40,460,530	32,635,643	34,006,085
Exemptions	(29,673,609)	(33,092,675)	(30,297,437)	(24,330,625)	(22,160,005)
Total	<u>\$408,057,935</u>	<u>\$375,379,254</u>	<u>\$339,271,903</u>	<u>\$318,440,208</u>	<u>\$309,655,908</u>

Principal Taxpayers

Principal Taxpayer	Type of Property	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation
Houston Bunker LLC	Land & Improvements	\$ 8,564,210	\$ 8,647,350
Wal-Mart Real Estate Business Trust	Retail	8,534,900	7,750,170
Montgomery Apartments LP	Apartments	7,134,850	7,134,850
T-Systems North America Inc.	Telecommunications	6,418,091	5,168,409
Stewart Creek Partners	Land & Improvements	5,686,570	5,686,570
Channelview Investment Corp.	Land & Improvements	5,661,190	2,801,200
JPS Investments	Land & Improvements	4,074,190	(a)
Wal-Mart #3591-00	Retail	3,887,070	5,310,761
Allamon Tool Co.	Oilfield Services	3,617,437	3,177,711
Lake Conroe Medical Center Ltd.	Healthcare	3,532,350	3,874,800
Blue Heron Bay Corp.	Land & Improvements	(a)	2,714,590
Total Ten Principal Taxpayers		<u>\$57,110,858</u>	<u>\$52,266,411</u>
Percentage Ten Principal Taxpayers Comprise of Tax Roll		14.00%	13.92%

(a) Not a principal taxpayer in such tax year.
Source: Montgomery Central Appraisal District.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2016 Assessed Valuation. The foregoing further assumes collection of 97% of taxes levied and the sale of no additional bonds:

Estimated Average Annual Debt Service Requirements (2016-2041).....	\$1,275,680
Tax Rate of \$0.323 on the 2016 Assessed Valuation (\$408,057,935) produces.....	\$1,278,486
Estimated Maximum Debt Service Requirement (2031).....	\$1,364,960
Tax Rate of \$0.345 on the 2016 Assessed Valuation (\$408,057,935) produces.....	\$1,365,566

Estimated Overlapping Taxes

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

Set forth below is a compilation of all 2016 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

Taxing Jurisdictions	2016 Tax Rate/\$100
The District	\$0.5300
Montgomery County	0.4667
Montgomery County Emergency Service District #2 ...	0.1000
Montgomery County Hospital District.....	0.0665
Montgomery Independent School District	<u>1.3700</u>
Estimated Total 2016 Tax Rate	<u>\$2.5332</u>

THE DISTRICT

General

The District is a municipal utility district created by an order of the Texas Water Rights Commission, a predecessor to the TCEQ, on November 21, 1972. The creation of the District was confirmed at an election held within the District on December 27, 1972. The District was created pursuant to the authority of Chapter 54, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. The rights, powers privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, including particularly Chapters 49 and 54, Texas Water Code, Vernon's Texas Codes Annotated, as amended. The District is subject to the continuing supervision of the TCEQ.

The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of stormwater. The District also contracts for solid waste disposal and collection services and operates and maintains recreational facilities.

The District is empowered, if approved by the electorate, and the TCEQ and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

Description

As originally created, the District contained approximately 408 acres. Due to subsequent annexations, the District presently contains approximately 855 acres.

Under Texas law, an owner of land outside the boundaries of the District may petition to be annexed into the District, provided the annexation is found to be feasible and in the best interests of the District, and subject to review and approval by the City of Conroe and the United States Justice Department. No representations can be made whether the District will annex additional tracts of land into its boundaries and, if it does, whether such annexed land will be successfully developed such that the additional bonded indebtedness of the District required to provide utility services to the land will be offset by the additional tax base produced by the development of taxable improvements.

The District is located in Montgomery County approximately 12.5 miles west of downtown Conroe. The District lies entirely within the extraterritorial jurisdiction of the City of Conroe and is located within the Montgomery Independent School District.

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. All of the present members of the Board reside within the District. Directors are elected in even-numbered years for four-year staggered terms. The present members and officers of the Board and their principal occupations are listed below:

<u>Name</u>	<u>Position</u>	<u>Occupation</u>	<u>Term Expires May</u>
Rudolph J. Novotny	President	Retired	2018
W. Bruce Douglass, Jr.	Vice President / General Manager	Retired	2018
Sam McGinty	Vice President	Retired Pilot	2020
Doris L. Griffith	Secretary/Treasurer	Retired	2020
Michael Algermissen	Assistant Secretary/Treasurer	Retired	2020

The District employs a general manager and 3 part-time employees. The District has also contracted for utility system operating, bookkeeping, tax assessing services and annual auditing of its books as follows:

Tax Assessor/Collector – The Tax Assessor/Collector for the District is hired by the Board of Directors each year. Utility Tax Service presently serves in this capacity. Utility Tax Service serves as Tax Assessor/Collector for approximately 65 municipal utility districts.

Bookkeeper – The District has engaged J.W. Schubert and Company P.C. as the District's Bookkeeper.

Utility System Operator – The District has employed Taylor's Utility Services to operate and maintain the District's water and sewer system (the "System"). Taylor's Utility Services serves as Operator for one municipal utility district and owns and operates a water supply company.

Auditor – The District employed Sandersen Knox & Company, LLP, Certified Public Accountants, to audit its financial records for the fiscal year ended September 30, 2015. The District's financial statements for the year ended September 30, 2015 have been included as "APPENDIX A." The District has engaged Knox Cox & Company, LLP to prepare its audit for fiscal year ending September 30, 2016.

Engineer – The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Bleyl & Associates (the "Engineer").

Bond Counsel – The District engages Bacon & Wallace, L.L.P., Houston, Texas, as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Bacon & Wallace, L.L.P. also acts as general counsel for the District.

Financial Advisor – The District has engaged BOK Financial Securities, Inc. as financial advisor (the "Financial Advisor") to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds.

STATUS OF DEVELOPMENT

According to the District's Engineer, as of September 9, 2016, underground water supply and distribution, wastewater collection, wastewater lift station and force main, storm drainage and street paving has been completed to serve approximately 600 acres of residential property (1,941 single-family lots) and approximately 175 acres of commercial property within the District. As of such date, the District contains 1,163 single-family homes and townhomes and 778 vacant developed lots.

The District includes the residential subdivisions of Cape Conroe, Sections 1 and 2; Harbor Point; Strawberry Hill Estates; Stewart Hills; Riverstone Pointe; Blue Heron Bay, Sections 1 and 2; South Shore Estates, Sections 1 through 5; The Reserve on Lake Conroe; La Vie; and The Cliffs at South Shore. Primary residences make up approximately 85% of homeownership and approximately 15% are secondary homes. There are approximately 778 vacant developed lots within the district, the majority of which are owned by individuals. New home construction is conducted on such lots owned by individuals using independent builders or, from time to time, by home construction companies that purchase lots and construct homes thereon. There are currently two developments under construction with the District, La Vie, Section 1 and 2 and The Reserve on Lake Conroe (formerly Crescent Cove).

La Vie is being developed by Doug Joslyn. Section 1 has been platted on 2.385 acres and consists of 12 lake front townhomes with 0.581 acres of common space. The townhomes are priced from the mid-\$900,000. Section 2 has been preliminarily platted on 4.933 acres and will consist of 14 single family residential lots with 0.738 acres of common space.

The Reserve on Lake Conroe is being developed by Lake Conroe Holdings LLC. Section 3 (formerly Crescent Cove) has been platted on 4.593 acres and consists of 16 lots, of which there are currently 3 single-family homes. There are other sections in preliminary stages of development and will contain 240 lots that will be approximately 50'x125' each.

Commercial development in the District has been undertaken on approximately 175 acres of unrestricted commercial reserves subdivided as Blue Heron Bay, Montgomery Business Park, South Shore Plaza, Sunrise Ranch, Section 1, Walden Road Business Park, Western Hills, Sections 1 and 2, and other separate commercial tracts. Commercial development includes a retail shopping, such as Wal-Mart and True Value, restaurants, medical offices, banking centers, and a data center for T-Systems North America.

Although the foregoing description of the above-ground improvements that are located within the District is accurate as of the date of this Official Statement, the District cannot represent the composition thereof in the future, nor can the District represent that any particular level of occupancy of such improvements will continue in the future.

Currently, there are approximately 80 acres within the District which are developable but undeveloped. The remaining approximately 80 acres are available for either commercial or residential development. Such undeveloped acres are owned by multiple parties, none of which has reported any definitive development plan for its undeveloped acres to the District.

There is no commitment by or legal requirement of any party to the District to proceed at any particular rate or according to any specified plan with the development of land within the District or of any homebuilder to proceed at any particular pace with the construction of homes in the District, and there is no restriction on any land owner's right to sell its land. Therefore the District can make no representation about the probability of future development, if any, or the rate of home construction activity in the District. Furthermore, no representations can be made by the District whether any commercial development will be conducted in the District in addition to the commercial development which has occurred therein to date, or as to any level of occupancy of any of above-ground improvements which have been constructed in the District.

Amenities which have been constructed within the District include a clubhouse, private marina, swimming pool, tennis court, a pavilion, boat launch and fishing pier. The District contains approximately 5 miles of shore line on Lake Conroe.

FUTURE DEVELOPMENT

The development of approximately 600 acres of the approximately 855 acres of land located in the District has been completed as 1,941 fully developed lots, and approximately 175 acres have been developed for commercial use, as described above under the caption "STATUS OF DEVELOPMENT." Approximately 80 acres of land located in the District available for future development are currently undeveloped. The balances of such undeveloped acres are owned by multiple parties, none of which has reported any definitive development plan for its undeveloped acres to the District. Therefore, the District can make no representation whether, or when, any development might occur on any of the currently undeveloped land located within the District.

Although the aforementioned undeveloped acres may be developed in the future, instigation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, the general and other economic conditions which would affect any party's ability to develop and sell lots and/or other property and of any home builder to sell completed homes described in this Official Statement under the caption "INVESTMENT CONSIDERATIONS." If the undeveloped portion of the District is eventually developed, additions to the District's water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues (if any) of the District's bonds and developer contributions, if any, as required by the TCEQ. Following the sale of the Bonds, the District will have \$25,400,000 bonds authorized by District voters for future issuance. See "THE BONDS – Authority for Issuance." No party is under any obligation to initiate development of any of the currently undeveloped land located within the District or to complete any development, if begun, and any party initiating any future development thereon could modify or discontinue development plans in its sole discretion. Accordingly, the District makes no representation that future development will occur. See "INVESTMENT CONSIDERATIONS – Economic Factors Affecting Taxable Values and Tax Payments."

THE SYSTEM

Proceeds of the Outstanding Bonds were used to finance water, sanitary sewer and drainage lines to serve 775 acres within the District.

- Water Supply -

The District's existing sources of water supply are provided by three water plants. Water Plant No. 1 contains the following: one water well rated at 1,000 gallon per minute ("gpm") total, a 125,000 gallon ground storage tank, a 320,000 gallon ground storage tank, two 10,000 gallon hydropneumatic tanks, 4 2,000 gpm booster pump capacity, a disinfection system, and an emergency generator. Water Plant No. 2 contains the following: a 1,600 gpm water well, a 125,000 gallon ground storage tank, a 210,000 gallon ground storage tank, 1,500 gpm booster pump capacity, two 10,000 gallon hydropneumatic tanks, a disinfection system and an emergency generator. Water Plant No. 3 contains the following: a 2,200 gpm water well, a 230,000 gallon ground storage tank, 1,800 gpm booster pump capacity, one 10,000 gallon hydropneumatic tank, a disinfection system and an emergency generator. The three plants are currently capable of serving a total of 2,500 connections.

The District lies within the jurisdiction of the Lone Star Groundwater Conservation District (LSGCD) which was created by the Texas Legislature in 2001. The purpose of the LSGCD is to conserve, protect and enhance the groundwater resources in Montgomery County. The District has submitted, and LSGCD has approved, a Groundwater Reduction Plan (GRP) to meet the reduction requirements imposed by LSGCD. As part of the GRP, the District constructed a water well in the Catahoula Aquifer in order to meet the LSGCD conversion requirements. The Catahoula well was originally constructed as a remote well with an interconnect to Water Plant No. 1. The remote well site has recently been converted into a full water plant (Water Plant No. 3). The District plans to use

proceeds of the Bonds to pay for the construction of Water Well No. 4, Water Plant No. 4, a waterline to connect Water Plant No. 4 to the water supply systems and a lift station and force main to the Westland Bunker Sanitary Sewer Extension. Proposed new Water Plant No. 4 facilities include: a 230,000 gallon ground storage tank, two (2) 1,300 GPM cooling towers, three (3) 700 GPM booster pumps, one 10,000 gallon pressure tank, a control building including electrical and controls, and a disinfection system.

- Wastewater Treatment -

The District owns and operates a 972,000 gallons per day ("gpd") wastewater treatment plant which is sufficient to treat flow from 2,777 connections at 350 gpd/connection. The wastewater treatment plant consists of a one-unit parallel flow contact stabilization sewage treatment plant with lift station and the following compartments: mixing zone, settling zone, sludge activation zone, aerobic digester (1st and 2nd stage), tertiary filter zone, and chlorine contact zone. Also provided is a flow meter with indicator. Digested sludge is wet hauled periodically by a licensed hauler.

- Drainage Facilities -

The District does not provide or maintain drainage facilities to the land within its boundaries. Although not part of the System, the drainage within the District is mostly through open ditches and culverts that outfall into Lake Conroe through storm sewers. Blue Heron Bay and Harbor Point have a curb and gutter pavement section with inlets and storm sewers draining into Lake Conroe. The Western Hills development has area outlets and a storm sewer system that drains into an open ditch that outfall into Lake Conroe.

Service to Land Outside the District's Boundaries

On March 25, 1999, the District entered a Water Supply and Wastewater Services Agreement ("Walden Road") with the City of Conroe. The agreement provides for the District to supply water and sewer services to an area of 375 acres of land on either side of Walden Road, north of S.H. 105, which had been recently annexed into the corporate limits of the City (the "Walden Road Service Area"). Pursuant to the agreement, all water and sanitary sewer service within the service area must be made by separate agreement. Pursuant to the agreement a number of utility service agreements have been approved by the District to provide utility service within the Walden Road Service Area.

On November 19, 2001, the District entered into a Utility Development and Service Agreement with Montgomery Independent School District ("MISD") to provide out-of-district water and sanitary sewer services to a 69.4784 school site located west of the District. This agreement provides for Phase I capacity in the amount of 9,450 gpd to serve an elementary school and an option for Phase II capacity in the amount of 24,500 gpd to serve a middle school which was completed in 2006. MISD paid \$46,723 for the Phase I capacity and \$118,955 for the Phase II capacity. MISD will pay \$4.40 per 1,000 gallons of metered water, subject to pro rata escalations in the event the District raises rates to in-district customers.

Strategic Partnership Agreement

The District entered into a Strategic Partnership Agreement (the "Agreement") with the City of Conroe (the "City") on May 3, 2002, regarding a commercial tract partially located within the boundaries of the City and partially located within the boundaries of the District. The Agreement provides that the City annex the tract for full municipal purposes. Both the District and the City still levy their respective ad valorem taxes upon the tract that is located within their jurisdictional boundaries. The District, however, owns and operates the water and wastewater system and provides water and wastewater services to the commercial tract on the same basis that it provides similar services to in-direct customers. In return for providing these services, the City pays annually to the District an amount equal to the ad valorem tax generated by the City on the portion of the commercial tract located within the City. The City will make these payments for twenty-five (25) year period following annexation. During the year ended September 30, 2015, the District received \$22,426 from the City under this Agreement. Payments under the Agreement are not pledged to the payment of the Bonds.

WATER AND SEWER OPERATIONS

The Bonds and the Outstanding 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. Although not pledged to the payment of the Bonds, net revenues from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds. It is anticipated that no significant revenues will be available for debt service on the Bonds in the foreseeable future.

Historical Operations of the System

The following summary of the District's Operating Fund shows figures that were extracted from the District's audited financial statements for September 30, 2012 through 2015 and an unaudited summary as of August 31, 2016 as provided by the District's bookkeeper. See "APPENDIX A" for the latest audited financial statements of the District.

	Fiscal Year Ended September 30,				
	2016 (a)	2015	2014	2013	2012
General Fund Revenues:					
Water and Sewer Service	\$ 733,977	\$ 802,014	\$ 783,917	\$ 802,664	\$ 778,826
Property Taxes	948,978	847,430	797,907	766,007	763,543
Penalties and Interest	33,614	20,034	20,322	28,202	24,817
Groundwater Reduction Plan					
Fees	29,680	---	---	53,161	289,527
Tap Connection Fees	18,150	57,525	30,223	36,325	13,300
Investment Earnings	4,094	4,509	4,274	4,207	3,487
Intergovernmental-Hurricane					
Ike	---	---	---	---	---
Other Income	2,822	24,463	26,055	29,831	42,534
TOTAL GENERAL FUND REVENUES	\$1,771,315	\$1,755,975	\$1,662,698	\$1,720,397	\$1,916,034
General Fund Expenditures:					
Current:					
Professional Fees	\$ 117,959	\$ 94,011	\$ 76,476	\$ 70,051	\$ 60,371
Contracted Services	102,943	141,224	109,472	130,554	131,176
Personnel Services	132,634	115,621	103,696	107,571	104,317
Utilities	179,150	234,906	243,610	183,154	196,395
Materials and Supplies	49,587	61,135	72,328	89,675	65,818
Repairs and Maintenance	427,302	500,237	432,661	353,039	435,577
Garbage Collection	218,195	218,386	225,250	197,761	171,918
Other	105,005	117,852	99,871	98,051	105,912
Capital Outlay	748,426	79,087	885,402	380,847	---
TOTAL GENERAL FUND EXPENDITURES	\$2,081,201	\$1,562,459	\$2,248,766	\$1,610,703	\$1,271,484
(Deficiency) of Revenues Over (Under) Expenditures	\$ (309,886)	\$ 193,516	\$ (586,068)	\$ 109,694	\$ 644,550
Other Financing Sources (Uses):					
Transfers	---	\$ 136,788	---	---	---
Total Other Financing Sources (Uses)	---	\$ 136,788	---	---	---
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	\$ (309,886)	\$ 330,305	\$ (586,068)	---	\$ 644,550
Fund Balances – Beginning	\$1,118,465	\$ 788,161	\$1,374,229	\$1,264,535	\$ 619,985
Fund Balances – Ending	\$ 808,579	\$1,118,465	\$ 788,161	\$1,374,229	\$1,264,535

(a) Unaudited. As of August 31, 2016.

Source: Comprehensive Annual Financial Report of Stanley Lake Municipal Utility District.

INVESTMENT CONSIDERATIONS

General

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

Economic Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development within the District is directly related to the vitality of the residential housing and commercial real estate industry in the Houston metropolitan area, including particularly the vitality of the market for second homes. New residential housing and commercial construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of residential and commercial construction activity would restrict the growth of property values in the District. Further declines in the price of oil could adversely affect the demand for such homes as well as the market value of such homes. Although as of September 9, 2016, the District contained approximately 175 acreage of commercial property and 1,163 homes, the District cannot predict the pace or magnitude of future construction in the District. Further, since a majority of the vacant developed lots are expected to be built upon on an as needed basis by individual homeowners as second homes or primary residences upon retirement and since a significant portion of the lots and homes in the District are being marketed as second homes and retirement homes, such economic factors could have an adverse effect upon sale of lots and homes as well as upon the construction of homes on lots currently owned by individuals. 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 – Status of Development," "DEVELOPMENT WITHIN THE DISTRICT."

Location and Access: The District is located in an outlying area of the Conroe metropolitan area, approximately 12.5 miles from the central business district of the City of Conroe and approximately twelve (12) miles from a major highway (U.S. Interstate 45). The homebuilders active within the District compete for the sale of developed lots and homes with numerous residential development projects located closer to major employment centers and closer to major arterial roads. In addition, many of the residential developments with which the District competes have lower overlapping taxes. As a result, particularly during times of increased competition, the homebuilders may find themselves at a competitive disadvantage to the developers and homebuilders in other residential projects located closer to major urban centers or with lower overlapping taxes. See "THE DISTRICT."

Maximum Impact on District Tax Rates: Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2016 Assessed Valuation of property located within the District (see "TAX DATA") is \$408,057,935. After issuance of the Bonds, the estimated maximum annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,364,960 (2031) and the estimated average annual debt service requirements will be \$1,275,680 (2016-2041, inclusive). Assuming no increase to nor decrease from the 2016 Assessed Valuation, a tax rate of \$0.3223 per \$100 of assessed valuation at a 97% tax collection rate would be necessary to pay the average annual debt service requirement. Assuming no increase to nor decrease from the 2016 Assessed Valuation, a tax rate of \$0.3448 per \$100 of assessed valuation at a 97% tax collection rate would be necessary to pay the maximum annual debt service requirement.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

Increases in the District's tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of homes within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District.

Dependence Upon Principal Taxpayers

Based on the 2016 tax rolls, the Top Ten Taxpayers are responsible for 14.00% of the District's 2016 taxes. See "TAX DATA – Principal Taxpayers." The ability of any significant taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more significant taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund (defined herein) or any other funds to allow for any such delinquencies. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. Therefore, failure by one or more significant taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis. Further, several of the significant taxpayers' property consists of large scale buildings which, if vacated, may have a limited market and may be difficult to re-lease or re-purpose. If vacated, the assessed value of such buildings may decrease substantially.

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 the amount of taxes owed to other taxing units, a bankruptcy court's stay of tax collection procedures against a taxpayer, and market conditions limiting the proceeds from a foreclosure sale of taxable property. The District's lien on taxable property within the District for taxes levied against such property can be foreclosed only in a judicial proceeding.

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year or otherwise to make such payments. (See "THE BONDS - Default and Remedies"). Except for mandamus, the Bond Order does not 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. Based on recent Texas court decisions, it is unclear whether Section §49.066 of the Texas Water Code effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property of the District in order to pay the principal of and interest on the Bonds.

Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if (1) it is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, special districts such as the District also must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

The District may not be placed into bankruptcy involuntarily.

Marketability

The District has no understanding (other than the initial reoffering yields) with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. There is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

Additional bonds are expected to be issued from time to time as future development occurs. 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, tax collections or net revenues to limit the amount of parity bonds which may be issued.

Following issuance of the Bonds, there will be \$25,400,000 in principal amount of unlimited tax bonds authorized and unissued by the District's voters for the purpose of constructing and acquiring water, sewer and drainage facilities, all of which may also be used for refunding purposes. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds and such additional bonds as may be hereafter authorized. The District has also reserved the right to issue certain other bonds and obligations described in the Bond Order.

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 on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the security of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

Environmental Regulation

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston 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 EPA's standards, 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 is reducing ozone concentration.

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

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

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load ("TMDL") of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district's ability to obtain and maintain TPDES permits.

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 CWA jurisdiction over intrastate water bodies and wetlands. The final rule will become effective 60 days after it is published in the Federal Register. Utility District operations are potentially subject to restrictions and requirements under the CWR provisions implemented by the USACE if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands. The CWR expands the federal definition of what is a jurisdictional water, which could negatively impact development in the District.

Future and Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

LEGAL MATTERS

Legal Opinions

The District will furnish the Initial Purchaser a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving 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 Bonds are valid and binding obligations of the District. The District also will furnish the approving legal opinion of Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel ("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. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District. Bond Counsel's opinion will also address the matters described below under "TAX MATTERS." The legal opinion is expected to be printed on the Bonds.

In capacity as Bond Counsel, Bacon & Wallace, L.L.P., has reviewed the information appearing in this Official Statement under the captions "THE BONDS," "TAXING PROCEDURES," "THE DISTRICT – General," and "THE DISTRICT – Management of the District – Bond Counsel," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has he conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of the bonds.

No Arbitrage

The District will certify on the date the Bonds are delivered and paid for that based upon all facts and estimates now known or reasonably expected to be in existence, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed from time to time thereunder. Furthermore, all officers, employees and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District have been authorized to certify to the facts, circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District will covenant in the Bond Order that it will make such use of the proceeds of the Bonds, regulate investments of proceeds of the Bonds and take such other and further actions and follow such procedures, including without limitation, calculation of the yield on the Bonds, as may be required so that the Bonds will not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

No Material Adverse Change

The obligation of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the financial condition 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 sale.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or threatened, either in state, or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest on or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Bacon & Wallace, L.L.P., Houston, Texas, 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 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, and (b) covenants of the District contained in the Bond documents 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 comply with the aforementioned representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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 is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. 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 the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the property refinanced with proceeds of the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The Initial Purchaser has represented that the initial public offering price to be paid for the Bonds, as stated on the cover of the Official Statement, may be less than the principal amount thereof (the "Original Issue Discount Bonds"). As such, the difference between (i) the amount payable at the 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.

Under Existing Law, such an 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 for which such Original Issue Discount Bond continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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 the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount 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 the treatment 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.

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 statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL 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 includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

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 issuer expects to designate the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer 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 \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."**

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has the following agreement for the benefit of the holders 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 ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system which is available at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB via EMMA annually.

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 "DISTRICT DEBT" (except under the subheading "Estimated Direct and Overlapping Debt Statement"), "TAX DATA," and "Appendix B" (Financial Statements of the District). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2016.

Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District's current fiscal year end is September 30, 2016. Accordingly, it must provide updated information by the last day of February of the following year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material

notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of SEC Rule 15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from EMMA

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by them in accordance with the Rule.

OFFICIAL STATEMENT

General

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

Experts

The information contained in this Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections titled "THE DISTRICT" and "THE SYSTEM" has been provided by Bleyl & Associates.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by Michael Arterburn and the Appraisal District. Such information has been included herein in reliance upon Michael Arterburn's authority as an expert in the field of tax collection and the Appraisal District's authority in the field of tax assessing.

The District's audited financial statement for the year ended September 30, 2015 were prepared by Sandersen Knox & Company, LLP, Certified Public Accountant, Sugar Land, Texas, and have been included herein as "APPENDIX A." Sandersen Knox & Company, LLP, Certified Public Accountant, has consented to the publication of such financial statements in this Official Statement.

Certification as to Official Statement

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

Updating of Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, or as otherwise required by Rule 15c2-12.

Official Statement "Deemed Final"

For purposes of compliance with SEC Rule 15c2-12, this document, as the same may be supplemented or corrected by the District from time to time, may be treated as an "official statement" with respect to the Bonds described herein "deemed final" by the District as of the date hereof (or of any such supplement or correction) except for the omission of interest rates and certain other information related to the Bonds.

This Official Statement was approved by the Board of Directors of Stanley Lake Municipal Utility District, as of the date shown on the first page hereof.

/s/ Rudolf J. Novotny
President, Board of Directors
Stanley Lake Municipal Utility District

ATTEST:

/s/ Doris L. Griffith
Secretary, Board of Directors
Stanley Lake Municipal Utility District

APPENDIX A
2015 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

Stanley Lake
Municipal Utility District
MONTGOMERY COUNTY, TEXAS
ANNUAL AUDIT REPORT
September 30, 2015

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Independent Auditors' Report

Board of Directors
Stanley Lake Municipal Utility District
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Stanley Lake Municipal Utility District (the "District") as of and for the year ended September 30, 2015, 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 entity'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 Stanley Lake Municipal Utility District as of September 30, 2015, 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 the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 30, respectively, 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 Texas Supplementary Information (TSI) listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



Sandersen Knox & Co., LLP
Sugar Land, Texas
January 5, 2016

Management's Discussion and Analysis

As management of Stanley Lake Municipal Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended September 30, 2015.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,286,930 (net position).
- As of September 30, 2015, the District's governmental funds reported an ending fund balance of \$4,757,122.
- The District's cash and investments balance at September 30, 2015 was \$5,132,053, representing a decrease of \$1,807,824 from September 30, 2014.
- The District had revenues of \$2,731,757 and revenues, net of expenses, of (\$57,773) for the year ended September 30, 2015.
- At the end of the fiscal year, unassigned and uncommitted fund balance for the General Fund was \$1,118,465, or 72 percent of total General Fund expenditures.
- The District's long-term debt decreased by \$475,000 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The government-wide financial statements present functions of the District that are provided from funding sources (governmental activities). The government-wide financial statements can be found on pages 10-13 of this report.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District consist solely of governmental funds (the General Fund, Debt Service Fund and Capital Projects Fund).

Governmental Funds - Governmental funds are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide an adjustments column to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 10-13 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 28 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's General Fund budget. Required supplementary information can be found on page 30 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,286,930 as of September 30, 2015.

The largest portion of the District's net position reflects financial resources that are restricted for debt service.

The District had net position investment in capital assets, net of related debt of (\$2,362,985) as of September 30, 2015.

Additionally, a portion of the District's net position represents net position unrestricted and available for future operations.

SUMMARY OF STATEMENT OF NET POSITION
As of September 30, 2015 and 2014

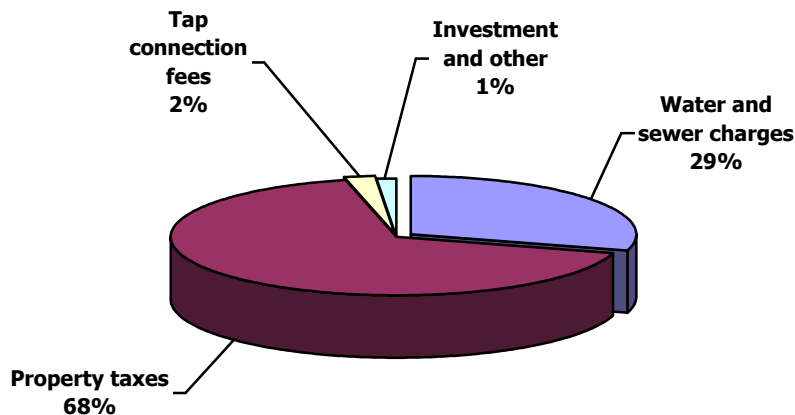
	Governmental Activities	
	2015	2014
Current and other assets	\$ 5,267,157	\$ 7,061,639
Capital assets, net	11,807,015	10,607,013
Total Assets	<u>17,074,172</u>	<u>17,668,652</u>
Long-term liabilities	14,170,000	14,645,000
Other liabilities	617,242	678,949
Total Liabilities	<u>14,787,242</u>	<u>15,323,949</u>
Net Position:		
Investment in capital assets	(2,362,985)	(4,037,987)
Restricted	3,492,345	5,557,718
Unrestricted	1,157,570	824,972
Total Net Position	<u>\$ 2,286,930</u>	<u>\$ 2,344,703</u>

Net position of the District, all of which relate to governmental activities, decreased by \$57,773. Key elements of the decrease are as follows:

CHANGES IN NET POSITION
Years Ended September 30, 2015 and 2014

	Governmental Activities	
	2015	2014
Revenues		
Water and sewer charges	\$ 802,014	\$ 783,917
Property taxes, penalties and interest	1,832,395	1,682,502
Tap connection fees	57,525	30,223
Investment income and other	39,823	40,517
Total Revenues	2,731,757	2,537,159
Expenses		
Professional fees and contracted services	269,619	210,945
Repairs and maintenance	500,237	432,661
Personnel, utilities and administration	536,626	524,161
Garbage collection	218,386	225,250
Interest and fiscal charges on long-term debt	601,239	742,439
Depreciation and amortization	663,423	633,464
Total Expenses	2,789,530	2,768,920
Change in Net Position	(57,773)	(231,761)
Net position, beginning	2,344,703	2,576,464
Net Position, Ending	\$ 2,286,930	\$ 2,344,703

GOVERNMENTAL REVENUES



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's governmental funds are discussed below:

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of September 30, 2015, the District's governmental funds, which consist of a general fund, debt service fund and capital projects fund, reported an ending fund balance of \$4,757,122, which is a decrease of \$1,739,800 from last year's total of \$6,496,922. The decrease relates primarily to capital outlay from the prior year bond sale. As a measure of the general fund's liquidity, it may be useful to compare unassigned and uncommitted fund balance to total fund expenditures. Unassigned and uncommitted fund balance represents 72 percent of total general fund expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The District's investment in capital assets as of September 30, 2015 amounts to \$11,807,015 (net of accumulated depreciation). This investment in capital assets includes land and infrastructure.

CAPITAL ASSETS SCHEDULE (net of depreciation)

	2015	2014
Land	\$ 87,450	\$ 87,450
Water system	8,102,507	7,753,079
Wastewater system	6,320,403	4,806,406
Engineering	2,278,366	2,278,366
Less: accumulated depreciation	<u>(4,981,711)</u>	<u>(4,318,288)</u>
Total Capital Assets, Net	<u>\$ 11,807,015</u>	<u>\$ 10,607,013</u>

Additional information on the District's capital assets can be found in Note 6 in the notes to financial statements.

LONG-TERM DEBT

As of September 30, 2015, the District has a total bonded debt outstanding of \$14,170,000. Interest expense and fiscal charges for the year totaled \$601,239 for the 2015 fiscal year on this bonded debt. These outstanding bonds have maturities ranging from 2016 to 2038. Additional information on the District's long-term debt can be found in Note 7 in the notes to the financial statements.

BUDGETARY HIGHLIGHTS

- Unassigned and uncommitted fund balance in the General Fund increased to \$1,118,465 from \$788,161. A projected budget increase of \$250,700 was adopted.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Stanley Lake Municipal Utility District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Stanley Lake Municipal Utility District: Bacon & Wallace, LLP; 6363 Woodway, Suite 800; Houston, Texas 77057 (713) 739-1060.

FINANCIAL STATEMENTS

Stanley Lake Municipal Utility District

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 987,866	\$ 603,560	\$ 3,012,255	\$ 4,603,681
Investments	252,503	268,001	7,868	528,372
Receivables:				
Property taxes	18,215	20,890		39,105
Customer service accounts	82,274			82,274
Other	13,725			13,725
Internal receivable				
Capital assets, net of accumulated depreciation:				
Land				
Infrastructure				
Total Assets	\$ 1,354,583	\$ 892,451	\$ 3,020,123	\$ 5,267,157
<u>Liabilities and Fund Balances/Net Position</u>				
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 109,229	\$ 5,728	\$ 247,299	\$ 362,256
Customer deposits	108,674			108,674
Internal payable				
Accrued interest payable				
Long-term liabilities:				
Due within one year				
Due after one year				
Total Liabilities	217,903	5,728	247,299	470,930
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	18,215	20,890		39,105
<u>Fund Balances/Net Position</u>				
Fund Balances:				
Restricted:				
Debt service		865,833		865,833
Capital projects			2,772,824	2,772,824
Unrestricted:				
Unassigned	1,118,465			1,118,465
Total Fund Balances	1,118,465	865,833	2,772,824	4,757,122
Total Liabilities and Fund Balances	\$ 1,354,583	\$ 892,451	\$ 3,020,123	\$ 5,267,157
Net Position:				
Investment in capital assets				
Restricted for debt service				
Restricted for capital projects				
Unrestricted				
Total Net Position				

See Notes to Financial Statements.

Exhibit B(1)

<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
\$	\$ 4,603,681
	528,372
	39,105
	82,274
	13,725
87,450	87,450
11,719,565	11,719,565
<u>11,807,015</u>	<u>\$ 17,074,172</u>
\$	\$ 362,256
	108,674
146,312	146,312
500,000	500,000
13,670,000	13,670,000
<u>14,316,312</u>	<u>14,787,242</u>
<u>(39,105)</u>	
(865,833)	
(2,772,824)	
<u>(1,118,465)</u>	
<u>(4,757,122)</u>	
(2,362,985)	(2,362,985)
719,521	719,521
2,772,824	2,772,824
1,157,570	1,157,570
<u>\$ 2,286,930</u>	<u>\$ 2,286,930</u>

Stanley Lake Municipal Utility District

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<u>Revenues</u>				
Water and sewer service	\$ 802,014	\$	\$	\$ 802,014
Property taxes	847,430	948,908		1,796,338
Penalties and interest	20,034	13,729		33,763
Tap connection fees	57,525			57,525
Investment earnings	4,509	1,995	8,856	15,360
Other income	24,463			24,463
Total Revenues	1,755,975	964,632	8,856	2,729,463
<u>Expenditures/Expenses</u>				
Current:				
Professional fees	94,011			94,011
Contracted services	141,224	34,384		175,608
Personnel services	115,621			115,621
Utilities	234,906			234,906
Materials and supplies	61,135			61,135
Repairs and maintenance	500,237			500,237
Garbage collection	218,386			218,386
Other	117,852	6,961	151	124,964
Capital Outlay	79,087		1,784,338	1,863,425
Debt Service:				
Principal retirement		475,000		475,000
Interest and fiscal charges		605,970		605,970
Bond issue costs				
Depreciation				
Total Expenditures/Expenses	1,562,459	1,122,315	1,784,489	4,469,263
Excess (Deficiency) of Revenues Over (Under) Expenditures	193,516	(157,683)	(1,775,633)	(1,739,800)
<u>Other Financing Sources (Uses)</u>				
Transfers	136,788		(136,788)	
Total Other Financing Sources (Uses)	136,788		(136,788)	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	330,304	(157,683)	(1,912,421)	(1,739,800)
Change in Net Position				
Fund Balances/Net Position - Beginning	788,161	1,023,516	4,685,245	6,496,922
Fund Balances/Net Position - Ending	\$ 1,118,465	\$ 865,833	\$ 2,772,824	\$ 4,757,122

See Notes to Financial Statements.

<u>Adjustments (Note 2)</u>	<u>Statement of Activities</u>
\$	\$
2,294	802,014
	1,798,632
	33,763
	57,525
	15,360
	24,463
<u>2,294</u>	<u>2,731,757</u>
	94,011
	175,608
	115,621
	234,906
	61,135
	500,237
	218,386
	124,964
(1,863,425)	
(475,000)	
(4,731)	601,239
663,423	663,423
<u>(1,679,733)</u>	<u>2,789,530</u>
1,682,027	
57,773	
<u>1,739,800</u>	
1,739,800	
(57,773)	(57,773)
(4,152,219)	2,344,703
<u>\$ (2,470,192)</u>	<u>\$ 2,286,930</u>

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Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform with generally accepted accounting principles. The following is a summary of the most significant policies:

A. Reporting Entity

Stanley Lake Municipal Utility District (the "District") was created by an order of the Texas Water Rights Commission (Texas Commission on Environmental Quality) on November 21, 1972 and confirmed by the electorate of Stanley Lake Municipal Utility District at a confirmation election held on December 27, 1972. The District was organized per article XVI, Section 59 of the Texas Constitution. It operates under Chapter 49 and Chapter 54 of the Texas Water Code. The Board of Directors held its first meeting on December 1, 1972, and the first bonds were sold on September 11, 1973.

The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and collection of solid waste.

The District is a political subdivision of the State of Texas governed by an elected five member board and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations, or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The District's primary activities include construction, maintenance, and operation of water and sewer system facilities, solid waste services, the operation of a public park and debt service on bonds issued to construct the facilities.

B. Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way the District prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial information. Some of the significant changes of GASB Statement No. 34 include the following:

Management’s Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to the analysis that private sector companies provide in their annual reports.

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure and general obligation debt). Accrual accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current or soon thereafter, as is the case with the modified accrual basis of accounting. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report related depreciation expense, the cost of “using up” capital assets, in the Statement of Activities. The net position of a government is broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Fund Financial Statements - These statements focus on the District’s major funds and are prepared using the modified basis of accounting.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units, as applicable. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District had no business-type activities or component units as of and for the year ended September 30, 2015.

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The governmental funds financial statements consist of the balance sheet and statement of revenues, expenditures and changes in fund balance. These financial statements have been adjusted to arrive at the government-wide financial statement balances (statement of net position and statement of activities). Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

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

Governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Revenues accrued include interest earned on investments and income from District operations. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service requirements, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable:

To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted:

To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed:

To indicate fund balance that can be used only for the specific purposes determined by a formal action of the Board of Directors (the District's highest level of decision-making authority).

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Assigned:

To indicate fund balance to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned:

To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned.

GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The District does not currently have any such policies.

The accounting system is organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which comprise its assets, liabilities, fund equity or deficit, revenues and expenditures.

The District reports the following governmental funds:

General Fund

The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to water and sewer service operations and property taxes. Expenditures include all costs associated with the daily operations of the District.

Debt Service Fund

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes pursuant to requirements of the District's bond orders. Expenditures include costs incurred in assessing and collecting these taxes.

Capital Projects Fund

The Capital Projects Fund is used to account for the expenditure of bond proceeds for the construction and major repair and maintenance of the District's facilities.

E. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of unearned tax revenues.

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

F. Budget

An unappropriated budget is adopted for the General Fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

G. Investments

The District classifies investments that have a remaining maturity of one year or less at the date of purchase as "money market investments" in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Reporting for Certain Investments and External Investment Pools" (Statement No. 31). Statement No. 31 defines "money market investments" as short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations. The District values its "money market investments" at cost, which is considered to approximate market value. The District's certificates of deposit, if any, are recorded at cost in accordance with Statement No. 31.

H. Short-Term Internal Receivables/Payables

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as internal receivables and payables on the combined balance sheet. These amounts are eliminated for government-wide presentation.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the government-wide financial statements. Capital assets, other than infrastructure items, are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Land	N/A
Water system	30 years
Wastewater system	30 years
Engineering	30 years

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums or discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of any applicable bond premium or discount.

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

K. Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 5, 2016, the date that the financial statements were available to be issued.

L. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes an adjustments column to arrive at the government-wide statement of net position balances. Amounts reported in the statement of net position are different because:

Total fund balances - governmental funds	\$ 4,757,122
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	11,807,015
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	39,105
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(146,312)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	<u>(14,170,000)</u>
Net Position of Governmental Activities	<u>\$ 2,286,930</u>

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes an adjustments column to arrive at changes in net position as reported in the government-wide statement of activities. Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (1,739,800)
--	----------------

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,863,425) exceeded depreciation expense (\$663,423).

	1,200,002
--	-----------

Repayment of bond principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

	475,000
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported in the governmental funds. This adjustment reflects the net change in interest payable.

	4,731
--	-------

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment reflects the net change in property taxes receivable.

	<u>2,294</u>
--	--------------

Change in Net Position of Governmental Activities

	<u><u>\$ (57,773)</u></u>
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Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH AND INVESTMENTS

Cash and cash equivalents consist of non-interest bearing and interest bearing checking accounts, a money market account and TexPool.

The carrying amounts for cash and cash equivalent balances, which approximate fair values, by fund at September 30, 2015, are as follows:

	Checking	TexPool	CD's	Total
General	\$ 987,866	\$ 2,503	\$ 250,000	\$ 1,240,369
Debt Service	603,560	18,001	250,000	871,561
Capital Projects	3,012,255	7,868		3,020,123
	\$ 4,603,681	\$ 28,372	\$ 500,000	\$ 5,132,053

The District considers the holdings in TexPool to have a one-day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Custodial Credit Risk - Deposits

For deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the District's deposits is required to be held in the District's name by the trust department of a bank other than the pledging bank (the District's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances. Deposits at year-end are representative of the types of deposits maintained by the District during the year.

The District's deposits in banks at year-end were entirely covered by federal depository insurance or by acceptable collateral held by the District's agent in the District's name.

Investments

At year-end, the District's investment balances were as follows:

	Fair Value	Weighted Average Maturity (Days)
Certificates of deposit	\$ 500,000	261
TexPool	28,372	1
Total Investments	\$ 528,372	

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Investment Policies

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investments of the District are in compliance with its investment policy.

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond orders require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds. Balances in checking accounts in depository institutions were entirely guaranteed by federal depository insurance or security as provided by statutes and bond provisions at September 30, 2015.

Investment Pools

The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. TexPool is rated AAA by Standard & Poors. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position of each pool is the same as the value of the underlying shares.

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operation.

Credit Risk - Investments

In accordance with its investment policy, the District minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. As of September 30, 2015, TexPool is rated AAAM by Standard and Poors.

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY TAXES

The voters of the District have authorized the District's Board of Directors to levy operation/maintenance taxes annually for use in financing general operations limited to \$0.25 per \$100 of assessed value. The District's bond orders require that ad valorem taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied for debt service requirements are without limitation as to rate or amount.

All property values are determined by the Montgomery Central Appraisal District. A tax lien attaches to all properties within the District on January 1st of each year. Taxes are generally levied on October 1 and are due upon receipt of the tax bill by the property owner. Penalties and interest are charged if taxes are not paid by the succeeding January 31st. There is an additional twenty percent penalty charged on accounts delinquent after July 1st of each year which generally is payable to the District's delinquent tax attorney.

Property taxes are prorated between operations and debt service based on the respective rates adopted for the year of the levy. For the current year, the District levied a combined rate of \$0.53 per \$100 of assessed valuation of which \$0.25 was allocated to operations/maintenance and \$0.28 was allocated to debt service. The resulting tax levy was \$1,789,961 on the adjusted taxable valuation of \$337,728,577 for the 2014 tax year.

Property taxes receivable at September 30, 2015, consisted of the following:

	General Fund	Debt Service Fund	Total
2014 Levy	\$ 7,614	\$ 8,527	\$ 16,141
2013 Levy	2,877	3,107	5,984
2012 Levy	1,592	1,592	3,184
2011 Levy	1,696	1,764	3,460
2010 and prior	4,436	5,900	10,336
	<u>\$ 18,215</u>	<u>\$ 20,890</u>	<u>\$ 39,105</u>

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES

Receivables as of year-end for the government's individual major funds are as follows:

	General	Debt Service	Total
Receivables:			
Taxes	\$ 18,215	\$ 20,890	\$ 39,105
Accounts	82,274		82,274
Other	13,725		13,725
Total Receivables	\$ 114,214	\$ 20,890	\$ 135,104

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable - general fund	\$ 18,215	\$
Delinquent property taxes receivable - debt service fund	20,890	
Total Deferred Revenue for Governmental Funds	\$ 39,105	\$

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2015, follows:

	Balance Oct 1, 2014	Increases	(Decreases)	Balance Sept 30, 2015
Governmental Activities:				
Non-depreciable Assets:				
Land	\$ 87,450	\$	\$	\$ 87,450
Total Non-depreciable Assets	87,450			87,450
Depreciable Assets:				
Water system	7,753,079	349,428		8,102,507
Wastewater system	4,806,406	1,513,997		6,320,403
Engineering	2,278,366			2,278,366
Total Depreciable Assets	14,837,851	1,863,425		16,701,276
Less Accumulated Depreciation	(4,318,288)	(663,423)		(4,981,711)
Totals	\$ 10,607,013	\$ 1,200,002	\$	\$ 11,807,015

Depreciation expense for the year ended September 30, 2015, totaled \$663,423.

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of bonds payable. Payments of principal and interest on the bonds are to be provided from tax levies on properties within the District. Investment income realized by the Debt Service Fund from investment of funds will be used to pay outstanding bond principal and interest. The following is a summary of changes in bonds payable for the year ended September 30, 2015:

Bonds payable, October 1, 2014	\$ 14,645,000
Bonds retired	(475,000)
Bonds payable, Sept. 30, 2015	<u><u>\$ 14,170,000</u></u>

Bonds payable at September 30, 2015, are comprised of the following individual issues:

	<u>Amounts Outstanding</u>	<u>Interest Rates</u>	<u>Date, Serially Begin/End</u>	<u>Maturity Interest Pmt. Dates</u>
2009	\$ 5,185,000	4.25-5.5%	July 1 2011/2033	July 1/ January 1
2011	3,670,000	2.0-4.0%	July 1 2012/2023	July 1/ January 1
2014	5,315,000	2.5-4.0%	July 1 2015/2038	July 1/ January 1
	<u><u>\$ 14,170,000</u></u>			

As of September 30, 2015, the debt service requirements on bonds outstanding for the next five fiscal years and thereafter through 2038 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	500,000	585,246	1,085,246
2017	520,000	565,396	1,085,396
2018	540,000	544,821	1,084,821
2019	565,000	523,371	1,088,371
2020	590,000	501,896	1,091,896
2021-2025	3,180,000	2,156,224	5,336,224
2026-2030	3,710,000	1,504,575	5,214,575
2031-2035	3,380,000	649,363	4,029,363
2036-2038	1,185,000	108,450	1,293,450
	<u><u>\$ 14,170,000</u></u>	<u><u>\$ 7,139,342</u></u>	<u><u>\$ 21,309,342</u></u>

As of September 30, 2015, the Debt Service Fund has \$865,833 available for debt service.

Stanley Lake Municipal Utility District

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The District is in compliance with all significant bond requirements and restrictions contained in the bond orders.

NOTE 8 - AGREEMENT WITH CITY OF CONROE

On May 3, 2002, the District entered into an agreement with the City of Conroe (the "City"), regarding a commercial tract partially located within the boundaries of the City and partially located within the boundaries of the District. The agreement provides that the City annex the tract for full municipal purposes. Both the District and the City still levy their respective ad valorem taxes upon the tract that is located within their jurisdictional boundaries. The District, however, owns and operates the water and wastewater system and provides water and wastewater services to the commercial tract on the same basis that it provides similar services to in-district customers. In return for providing these services, the City pays annually to the District an amount equal to the ad valorem tax generated by the City on the portion of the commercial tract located within the City. The agreement continues until the earlier of full purpose annexation of the entire District by the City or 25 years.

During the year ended September 30, 2015, the District received \$22,426 from the City under this agreement. This amount has been included as part of other income in the financial statements.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the District carries commercial insurance. In addition, the District participates along with numerous other entities in the Texas Municipal League's Intergovernmental Risk Pool's Workers Compensation Fund (the "Pool") to insure the District for worker compensation related claims. The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements, which exceeded coverage amounts for the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

Stanley Lake Municipal Utility District

Exhibit C(1)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Water and sewer service	\$ 543,000	\$ 543,000	\$ 802,014	\$ 259,014
Property taxes	831,000	831,000	847,430	16,430
Penalties and interest	4,500	4,500	20,034	15,534
Tap connection fees	272,000	272,000	57,525	(214,475)
Investment earnings	4,000	4,000	4,509	509
Other income	38,000	38,000	24,463	(13,537)
Total Revenues	<u>1,692,500</u>	<u>1,692,500</u>	<u>1,755,975</u>	<u>63,475</u>
Expenditures				
Current:				
Professional fees	78,000	78,000	94,011	(16,011)
Contracted services	134,000	134,000	141,224	(7,224)
Personnel services	105,800	105,800	115,621	(9,821)
Utilities	250,000	250,000	234,906	15,094
Materials and supplies	75,000	75,000	61,135	13,865
Repairs and maintenance	333,000	333,000	500,237	(167,237)
Garbage collection	216,000	216,000	218,386	(2,386)
Other	140,000	140,000	117,852	22,148
Capital Outlay	<u>110,000</u>	<u>110,000</u>	<u>79,087</u>	<u>30,913</u>
Total Expenditures	<u>1,441,800</u>	<u>1,441,800</u>	<u>1,562,459</u>	<u>(120,659)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	250,700	250,700	193,516	(57,184)
Other Financing Source - Transfer			136,788	136,788
Fund Balances - Beginning	788,161	788,161	788,161	
Fund Balances - Ending	<u>\$ 1,038,861</u>	<u>\$ 1,038,861</u>	<u>\$ 1,118,465</u>	<u>\$ 79,604</u>

Stanley Lake Municipal Utility District

Exhibit C(2)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

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TEXAS SUPPLEMENTARY INFORMATION

Stanley Lake Municipal Utility District

SCHEDULE OF SERVICES AND RATES

Year Ended September 30, 2015

1. **Services provided by the District:**

<u>X</u>	Retail Water	<u> </u>	Wholesale Water	<u> </u>	Drainage
<u>X</u>	Retail Sewer	<u> </u>	Wholesale Sewer	<u> </u>	Irrigation
<u>X</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> </u>	Other (specify): _____				

2. **Retail Service Providers**

a. **Retail rates based on 5/8" meter**

Retail rates not applicable

The most prevalent type of meter (if not a 5/8"): _____

Not Applicable

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water	<u>\$10.00</u>	<u>10,000</u>	<u>N</u>	<u>\$2.00</u>	<u>10,001-50,000</u>
				<u>3.00</u>	<u>50,001 & over</u>
Wastewater	<u>\$10.00</u>	<u>10,000</u>	<u>N</u>	<u>\$2.00</u>	<u>10,001-50,000</u>
				<u>3.00</u>	<u>50,001 & over</u>

Wastewater is not metered.

District employs winter averaging for wastewater usage?

Yes No X

Total charges per 10,000 gallons usage:

Water \$10.00 Wastewater \$10.00

b. **Water and Wastewater Retail Connections:**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
< or = .75"	<u>1,175</u>	<u>1,165</u>	x 1.0	<u>1,165</u>
1"	<u> </u>	<u> </u>	x 2.5	<u> </u>
1.5"	<u> </u>	<u> </u>	x 5.0	<u> </u>
2"	<u>83</u>	<u>83</u>	x 8.0	<u>664</u>
3"	<u> </u>	<u> </u>	x 15.0	<u> </u>
4"	<u>6</u>	<u>6</u>	x 25.0	<u>150</u>
6"	<u> </u>	<u> </u>	x 50.0	<u> </u>
8"	<u> </u>	<u> </u>	x 80.0	<u> </u>
10"	<u> </u>	<u> </u>	x 115.0	<u> </u>
Total Water	<u>1,264</u>	<u>1,254</u>		<u>1,979</u>
Total Wastewater	<u>1,264</u>	<u>1,254</u>	x 1.0	<u>1,254</u>

3. **Total Water Consumption During the Fiscal Year:** (Rounded to the nearest thousand)

Gallons pumped into system:	171,649,000	Water Accountability Ratio
		(Gallons billed/Gallons pumped)
Gallons billed to customers:	162,846,380	94.9%

4. Standby Fees

Does the District have Debt Service standby fees? Yes ___ No X
If yes, date of the most recent Commission Order _____

Does the District have Operation and Maintenance
standby fees? Yes ___ No X
If yes, date of the most recent Commission Order _____

5. Location of District:

County(ies) in which District is located. Montgomery

Is the District located entirely within one county? Yes X No ___

Is the District located within a city? Entirely ___ Partly ___ Not at all X

City(ies) in which District is located. _____

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

ETJ's in which District is located. City of Conroe, Texas

Are Board members appointed by an office outside the District?
Yes ___ No X

If yes, by whom? _____

Stanley Lake Municipal Utility District

TSI-2

SCHEDULE OF GENERAL FUND EXPENDITURES

Years Ended September 30, 2015 and 2014

	2015	2014
<u>Current</u>		
Professional Fees:		
Auditing	\$ 8,700	\$ 9,900
Legal	36,560	35,658
Engineering	48,751	30,918
	94,011	76,476
Contracted Services:		
District operator	61,150	52,039
Bookkeeping	28,391	27,825
Meter reading	15,076	14,123
Sludge removal	27,084	
Appraisal fees		6,434
Other contracted services	9,523	9,051
	141,224	109,472
Personnel Services	115,621	103,696
Utilities	234,906	243,610
Materials and Supplies:		
Chemicals and tools	44,089	42,432
Office expenses	17,046	29,896
	61,135	72,328
Repairs and Maintenance:		
Water lines	118,258	67,998
Water well and plant	7,115	33,461
Wastewater lines	12,061	26,903
Wastewater plant	125,043	128,103
Groundwater reduction		
Other	237,760	176,196
	500,237	432,661
Other Expenditures:		
Directors fees	12,600	14,850
Directors expenses	1,363	4,628
Insurance	24,359	20,558
Licenses, permits and fees	41,164	36,272
Other	38,366	23,563
	117,852	99,871
Garbage Collection	218,386	225,250
Capital Outlay	79,087	885,402
Total Expenditures	\$ 1,562,459	\$ 2,248,766

Number of employees employed by the District:

4	Full-time
	Part-time

Stanley Lake Municipal Utility District

TSI-3

SCHEDULE OF TEMPORARY INVESTMENTS

Year Ended September 30, 2015

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Balances at September 30, 2015</u>	<u>Accrued Interest</u>
<u>General Fund</u>					
Certificate of deposit	10040	0.60	6/17/2016	\$ 250,000	\$
TexPool	7874200001	Variable	N/A	<u>2,503</u>	<u> </u>
Total General Fund				<u>252,503</u>	<u> </u>
<u>Debt Service Fund</u>					
Certificate of deposit	10041	0.60	6/17/2016	250,000	
TexPool	7874200002	Variable	N/A	<u>18,001</u>	<u> </u>
Total Debt Service Fund				<u>268,001</u>	<u> </u>
<u>Capital Projects Fund</u>					
TexPool	7874200002	Variable	N/A	<u>7,868</u>	<u> </u>
Total Capital Projects Fund				<u>7,868</u>	<u> </u>
Total All Funds				<u>\$ 528,372</u>	<u>\$</u>

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Stanley Lake Municipal Utility District

TSI-4

ANALYSIS OF TAXES LEVIED AND RECEIVABLE

Year Ended September 30, 2015

	General Fund	Debt Service Fund	Total
Taxes Receivable - October 01, 2014	\$ 16,879	\$ 19,932	\$ 36,811
Additions and corrections-prior years	4,445	4,226	8,671
Adjusted Taxes Receivable - October 01, 2014	21,324	24,158	45,482
2014 Original Tax Roll	832,731	932,658	1,765,389
Additions and corrections-current year	11,590	12,982	24,572
Adjusted tax roll	844,321	945,640	1,789,961
Total to be Accounted for Tax Collections	865,645	969,798	1,835,443
Current year	836,708	937,113	1,773,821
Prior years	10,722	11,795	22,517
Total Collections	847,430	948,908	1,796,338
Taxes Receivable - September 30, 2015	\$ 18,215	\$ 20,890	\$ 39,105
<u>Taxes Receivable - By Tax Year</u>			
2014	\$ 7,614	\$ 8,527	\$ 16,141
2013	2,877	3,107	5,984
2012	1,592	1,592	3,184
2011	1,696	1,764	3,460
2010 and prior	4,436	5,900	10,336
Taxes Receivable - September 30, 2015	\$ 18,215	\$ 20,890	\$ 39,105
	2014	2013	2012
Assessed Property Valuations	\$ 337,728,577	\$ 318,776,429	\$ 309,299,682
Tax Rates Per \$100 Valuations			
Debt service	\$ 0.280	\$ 0.270	\$ 0.250
Maintenance & operations	0.250	0.250	0.250
Total Tax Rate per \$100 Valuation	\$ 0.530	\$ 0.520	\$ 0.500
Tax Levy*	\$ 1,789,961	\$ 1,657,637	\$ 1,546,498
Percent of taxes collected to taxes levied (as adjusted)	99.1%	99.6%	99.8%

* As adjusted

Stanley Lake Municipal Utility District

TSI-5

LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS

September 30, 2015

Due During Fiscal Year Ending Sept. 30	Annual Requirements for All Series			Series 2009		
	Total Principal Due	Total Interest Due	Total Due	Principal Due July 1	Interest January 1, July 1	Total
2016	\$ 500,000	\$ 585,246	\$ 1,085,246	\$ 50,000	\$ 235,448	\$ 285,448
2017	520,000	565,396	1,085,396	50,000	232,698	282,698
2018	540,000	544,821	1,084,821	55,000	229,948	284,948
2019	565,000	523,371	1,088,371	50,000	226,923	276,923
2020	590,000	501,896	1,091,896	50,000	224,998	274,998
2021	615,000	479,496	1,094,496	45,000	223,073	268,073
2022	640,000	456,028	1,096,028	45,000	221,205	266,205
2023	665,000	431,481	1,096,481	45,000	219,338	264,338
2024	615,000	405,933	1,020,933	365,000	217,470	582,470
2025	645,000	383,286	1,028,286	385,000	202,323	587,323
2026	675,000	358,473	1,033,473	410,000	185,960	595,960
2027	705,000	331,568	1,036,568	435,000	168,330	603,330
2028	740,000	302,978	1,042,978	460,000	149,190	609,190
2029	775,000	272,128	1,047,128	485,000	128,490	613,490
2030	815,000	239,428	1,054,428	515,000	106,665	621,665
2031	855,000	204,488	1,059,488	545,000	82,975	627,975
2032	895,000	166,473	1,061,473	580,000	57,360	637,360
2033	940,000	126,033	1,066,033	615,000	29,520	644,520
2034	335,000	83,513	418,513			
2035	355,000	68,856	423,856			
2036	375,000	53,325	428,325			
2037	395,000	36,450	431,450			
2038	415,000	18,675	433,675			
Totals	<u>\$ 14,170,000</u>	<u>\$ 7,139,342</u>	<u>\$ 21,309,342</u>	<u>\$ 5,185,000</u>	<u>\$ 3,141,914</u>	<u>\$ 8,326,914</u>

Due During Fiscal Year Ending Sept. 30	Series 2011R			Series 2014		
	Principal Due July 1	Interest January 1, July 1	Total	Principal Due July 1	Interest January 1, July 1	Total
2016	\$ 390,000	\$ 146,800	\$ 536,800	\$ 60,000	\$ 202,998	\$ 262,998
2017	405,000	131,200	536,200	65,000	201,498	266,498
2018	420,000	115,000	535,000	65,000	199,873	264,873
2019	445,000	98,200	543,200	70,000	198,248	268,248
2020	465,000	80,400	545,400	75,000	196,498	271,498
2021	490,000	61,800	551,800	80,000	194,623	274,623
2022	515,000	42,200	557,200	80,000	192,623	272,623
2023	540,000	21,600	561,600	80,000	190,543	270,543
2024				250,000	188,463	438,463
2025				260,000	180,963	440,963
2026				265,000	172,513	437,513
2027				270,000	163,238	433,238
2028				280,000	153,788	433,788
2029				290,000	143,638	433,638
2030				300,000	132,763	432,763
2031				310,000	121,513	431,513
2032				315,000	109,113	424,113
2033				325,000	96,513	421,513
2034				335,000	83,513	418,513
2035				355,000	68,856	423,856
2036				375,000	53,325	428,325
2037				395,000	36,450	431,450
2038				415,000	18,675	433,675
Totals	<u>\$ 3,670,000</u>	<u>\$ 697,200</u>	<u>\$ 4,367,200</u>	<u>\$ 5,315,000</u>	<u>\$ 3,300,228</u>	<u>\$ 8,615,228</u>

Stanley Lake Municipal Utility District

TSI-6

ANALYSIS OF CHANGES IN LONG-TERM DEBT

Year Ended September 30, 2015

	Bond Issue			Total
	2009	2011	2014	
Interest rate	4.25-5.5%	2.0-4.0%	2.5-4.0%	
Dates interest payable	1/1;7/1	1/1;7/1	1/1;7/1	
Maturity dates	7/1/11- 7/1/33	7/1/12- 7/1/23	7/1/15- 7/1/38	
Original issue amount	\$ 5,400,000	\$ 4,745,000	\$ 5,370,000	
Bonds outstanding at beginning of year	\$ 5,235,000	\$ 4,040,000	\$ 5,370,000	\$ 14,645,000
Bonds sold				
Bonds refunded				
Principal retirements	(50,000)	(370,000)	(55,000)	(475,000)
Bonds Outstanding at End of Current Year	<u>\$ 5,185,000</u>	<u>\$ 3,670,000</u>	<u>\$ 5,315,000</u>	<u>\$ 14,170,000</u>
Interest Retirements	<u>\$ 238,198</u>	<u>\$ 161,600</u>	<u>\$ 204,373</u>	<u>\$ 604,171</u>
<u>Paying Agent/Registrar</u>				
All Series	Wells Fargo Bank Texas, N.A. Houston, Texas			
	Bond Authority	Tax and Revenue Bonds		
Amount authorized	\$ 25,900,000			
Amount issued	<u>\$ 20,710,000</u>			
Remaining	<u>\$ 5,190,000</u>			
Debt Service Fund Cash and Temporary Investment Balances at End of Year				<u>\$ 871,561</u>
Average Annual Debt Service Payment for Remaining Term of all Debt				<u>\$ 926,493</u>

Stanley Lake Municipal Utility District

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS

Last Five Fiscal Years

	Amounts				
	2015	2014	2013	2012	2011
<u>General Fund Revenues</u>					
Water and sewer service	\$ 802,014	\$ 783,917	\$ 802,664	\$ 778,826	\$ 859,442
Property taxes	847,430	797,907	766,007	763,543	710,463
Penalties and interest	20,034	20,322	28,202	24,817	12,173
Groundwater reduction plan fees			53,161	289,527	
Tap connection fees	57,525	30,223	36,325	13,300	10,800
Interest and other	28,972	30,329	34,038	46,021	22,963
Total Revenues	1,755,975	1,662,698	1,720,397	1,916,034	1,615,841
<u>General Fund Expenditures</u>					
Current	1,483,372	1,363,364	1,240,785	1,271,484	1,144,324
Capital outlay	79,087	885,402	369,918		617,683
Total Expenditures	1,562,459	2,248,766	1,610,703	1,271,484	1,762,007
Revenues Over (Under) Expenditures	\$ 193,516	\$ (586,068)	\$ 109,694	\$ 644,550	\$ (146,166)
<u>Debt Service Fund Revenues</u>					
Property taxes	\$ 948,908	\$ 871,901	\$ 764,760	\$ 795,907	\$ 766,101
Penalty and interest	13,729	12,309	8,126	10,403	6,971
Interest	1,995	3,704	3,257	19,536	5,462
Total Revenues	964,632	887,914	776,143	825,846	778,534
<u>Debt Service Fund Expenditures</u>					
Tax collection	41,345	29,653	23,800	18,135	24,598
Debt service	1,080,970	1,099,664	818,153	820,303	843,842
Total Expenditures	1,122,315	1,129,317	841,953	838,438	868,440
Revenues Over (Under) Expenditures	\$ (157,683)	\$ (241,403)	\$ (65,810)	\$ (12,592)	\$ (89,906)

Percent of Total Fund Revenues				
2015	2014	2013	2012	2011
45.6 %	47.1 %	46.7 %	40.6 %	53.2 %
48.3	48.0	44.5	39.9	44.0
1.1	1.2	1.6	1.3	0.8
		3.1	15.1	
3.3	1.8	2.1	0.7	0.7
1.7	1.9	2.0	2.4	1.3
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
84.5	82.0	72.1	66.4	70.8
4.5	53.3	21.5		38.2
<u>89.0</u>	<u>135.3</u>	<u>93.6</u>	<u>66.4</u>	<u>109.0</u>
<u>11.0 %</u>	<u>(35.3) %</u>	<u>6.4 %</u>	<u>33.6 %</u>	<u>(9.0) %</u>
98.4 %	98.2 %	98.5 %	96.4 %	98.4 %
1.4	1.4	1.0	1.3	0.9
0.2	0.4	0.5	2.3	0.7
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
4.3	3.3	3.1	2.2	3.2
112.1	123.8	105.4	99.3	108.4
<u>116.4</u>	<u>127.1</u>	<u>108.5</u>	<u>101.5</u>	<u>111.6</u>
<u>(16.4) %</u>	<u>(27.1) %</u>	<u>(8.5) %</u>	<u>(1.5) %</u>	<u>(11.6) %</u>

Stanley Lake Municipal Utility District

TSI-8

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

September 30, 2015

District's Mailing Address:	875 Lake View Drive Montgomery, TX 77356
District's Business Telephone Number:	(936) 582-1010
Submission Date of most recent District Registration Form (TWC Sections 36.054 and 49.054)	June 11, 2014
Limit on Fees of Office that a Director may receive during a fiscal year (Set by Board Resolution - TWC Section 49.6000):	\$ 7,200

Names	Term or Date Hired	Fees of Office Paid	Expenses	Title at Year-End
<u>Board Members</u>				
Rudolf J. Novotny	5/14-5/18	\$ 3,600		President
W. Bruce Douglass, Jr.	5/14-5/18	2,850	\$ 258	VP/GM
Doris L. Griffith	5/12-5/16	2,100		Secretary/ Treas.
Samuel A. McGinty	5/12-5/16	2,100		Vice President
Michael Algermissen	5/14-5/16	2,550	982	Asst. Secretary /Treasurer
<u>Key Administrative Personnel</u>				
W. Bruce Douglass, Jr.	2/14/2014	36,000		General Manager
<u>Consultants</u>				
Bacon & Wallace, L.L.P.	11/1/2001	38,085		Attorney
Utility Tax Service	10/1/2013	19,169		Tax Assessor/ Collector
Bleyl & Associates	6/17/2005	212,572		Engineer
Taylor Utility Services	1/1/1981	519,882		Operator
Phelps, Sanderson, Eby & Assoc., PC	1/1/1999	28,391		Bookkeeper
Sandersen Knox & Co., L.L.P.	7/1/1999	8,700		Independent Auditor