

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 22, 2016

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

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126, AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DISCUSSION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

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

NEW ISSUE-BOOK-ENTRY-ONLY

\$3,060,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

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

UNLIMITED TAX ROAD BONDS

SERIES 2016

Dated: November 1, 2016

Due: September 1, as shown below

The bonds described above (the "Bonds") are being issued by Montgomery County Municipal Utility District No. 126 (the "District"). Principal of the Bonds is payable at maturity or prior redemption. Interest on the Bonds initially accrues from November 1, 2016, and is first payable on March 1, 2017 (four months' interest). Thereafter, interest on the Bonds accrues from the most recent interest payment date and is payable on each March 1 and September 1 until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown below.

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

MATURITY SCHEDULE

Principal <u>Amount(a)</u>	Maturity <u>(Sept. 1)</u>	CUSIP <u>Number(c)</u>	Interest <u>Rate</u>	Initial Reoffering <u>Yield(d)</u>	Principal <u>Amount(a)</u>	Maturity <u>(Sept. 1)</u>	CUSIP <u>Number(c)</u>	Interest <u>Rate</u>	Initial Reoffering <u>Yield(d)</u>
\$ 85,000	2018			%	\$ 125,000	2030 (b)			%
85,000	2019				130,000	2031 (b)			
90,000	2020				135,000	2032 (b)			
95,000	2021				140,000	2033 (b)			
95,000	2022				145,000	2034 (b)			
100,000	2023				150,000	2035 (b)			
100,000	2024				155,000	2036 (b)			
105,000	2025 (b)				160,000	2037 (b)			
110,000	2026 (b)				165,000	2038 (b)			
115,000	2027 (b)				170,000	2039 (b)			
120,000	2028 (b)				180,000	2040 (b)			
120,000	2029 (b)				185,000	2041 (b)			

- (a) The Underwriter may designate one or more maturities as term bonds. See accompanying "OFFICIAL NOTICE OF SALE" and "OFFICIAL BID FORM."
- (b) Bonds maturing on or after September 1, 2025, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on September 1, 2024, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (c) CUSIP Numbers will be assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (hereinafter defined) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (d) Initial Reoffering Yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe or any entity other than the District. **INVESTMENT IN THE BONDS IS SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."**

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about November 16, 2016.

Bids Due: Thursday, October 13, 2016, at 9:45 A.M., Houston Time, in Houston, Texas
Bid Award: Thursday, October 13, 2016, at 11:00 A.M., Houston Time, in Houston, Texas

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

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by _____ (the "Underwriter"), paying 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 (the IBA method).

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating (i) the prices at which a substantial amount of the Bonds of each maturity have been sold to the public, and/or (ii) the price at which the Underwriter reasonably expected to sell a substantial amount of the Bonds of a particular maturity to the public, but for which a substantial amount of such maturity has not been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the initial reoffering yields or prices of the Bonds. Information concerning initial reoffering yields or prices is the responsibility of the Underwriter.

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

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

- Description...* The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), dated November 20, 2008. The District is a municipal utility district and operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 330 acres of land. See “THE DISTRICT.”
- Location...* The District is located approximately 25 miles north of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Conroe (the “City”) and within the boundaries of the Willis Independent School District. The District is bounded on the north by League Line Road, on the east by Longmire Drive, and on the west by Lake Conroe. See “THE DISTRICT” and “AERIAL LOCATION MAP.”
- The Developer...* The developer of the land within the District is D.R. Horton - Texas, Ltd. (the “Developer”), a Texas limited partnership. The Developer is wholly owned by D.R. Horton, Inc. (“D.R. Horton”), a Delaware corporation and publicly held company, the stock of which is listed on the New York Stock Exchange under the ticker symbol “DHL.” The Developer continues to own approximately 216 acres of undeveloped land in the District. See “THE DEVELOPER.”
- Status of Development...* The development in the District is being marketed as Water Crest on Lake Conroe. Development in the District currently includes 253 single-family residential lots on approximately 68 acres. As of September 15, 2016, the District consisted of 119 completed homes (including 84 occupied, 16 under contract to a homebuyer and 19 unsold), 5 homes under construction (3 under contract to a homebuyer and 2 unsold) and 129 vacant developed lots. Homes in the District have an average sales price of approximately \$260,000.
- The remainder of the District is comprised of a recreation center on approximately 4 acres, approximately 70 undevelopable acres (detention and storm drainage facilities, street right-of-way, open space and undevelopable reserves), approximately 3 acres owned by City of Conroe for a future fire station, and approximately 185 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities. See “THE DISTRICT.”
- Homebuilder...* The sole homebuilder within the District is D.R. Horton who is referred to herein as the Developer. See “THE DISTRICT—Status of Development: Homebuilding.”
- Payment Record...* The Bonds represent the first series of bonds issued by the District. Twelve (12) months of interest will be capitalized from Bond proceeds and allocated to the payment of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

THE BONDS

- Description...* \$3,060,000 Unlimited Tax Road Bonds, Series 2016 (the “Bonds”) are being issued as fully registered bonds pursuant to an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the District’s Board of Directors (the “Board”). The Bonds are scheduled to mature serially on September 1 in the years 2018 through 2041, both inclusive. The Bonds will be issued in book-entry form only in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds initially accrues from November 1, 2016, and is first payable on March 1, 2017 (four months’ interest). Thereafter, interest on the Bonds accrues from the most recent interest payment date and is payable on each March 1 and September 1 until maturity or prior redemption. See “THE BONDS.”

<i>Book-Entry-Only System...</i>	The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each maturity of the Bonds and will be deposited with DTC or its designee. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after September 1, 2025, are subject to redemption at the option of the District in whole, or from time to time in part, prior to their maturity dates on September 1, 2024, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to finance road facilities as described herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to capitalize twelve (12) months of interest on the Bonds; to pay interest on funds advanced by the Developer on behalf of the District; and to pay engineering fees and administrative costs and certain other costs related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Authority for Issuance...</i>	The Bonds are issued pursuant to the Bond Order authorizing the issuance of the Bonds, the Texas Constitution and the general laws of the State of Texas, the terms and provisions of Article III, Section 52 of the Texas Constitution, and an election held within the boundaries of the District on May 9, 2009. See “THE BONDS—Authority for Issuance.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe, or any entity other than the District. See “THE BONDS—Source and Security for Payment.”
<i>Municipal Bond Rating...</i>	The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made.
<i>Qualified Tax-Exempt Obligations...</i>	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Schwartz, Page & Harding, L.L.P., Houston, Texas. See “MANAGEMENT OF THE DISTRICT—District Consultants” and “LEGAL MATTERS.”
<i>Financial Advisor...</i>	FirstSouthwest, a Division of Hilltop Securities Inc., Houston, Texas. See “MANAGEMENT OF THE DISTRICT—District Consultants.”
<i>Disclosure Counsel...</i>	Norton Rose Fulbright US LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT—District Consultants.”
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

RISK FACTORS

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

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2016 Taxable Assessed Valuation.....	\$33,725,521	(a)
Estimated Taxable Assessed Valuation as of July 1, 2016.....	\$41,562,021	(b)
Gross Direct Debt Outstanding (including the Bonds).....	\$3,060,000	
Estimated Overlapping Debt	<u>1,188,024</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$4,248,024	
Ratio of Gross Direct Debt to:		
2016 Taxable Assessed Valuation	9.19%	
Estimated Taxable Assessed Valuation as of July 1, 2016	7.36%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2016 Taxable Assessed Valuation	12.76%	
Estimated Taxable Assessed Valuation as of July 1, 2016	10.22%	
Funds Available for Debt Service:		
Capitalized Interest from proceeds of the Bonds (Twelve Months).....	\$122,400	(d)
Funds Available for Operations and Maintenance as of September 22, 2016.....	\$9,780	(e)
2015 Debt Service Tax Rate.....	\$0.00	
2015 Maintenance Tax Rate.....	<u>0.90</u>	
2015 Total Tax Rate.....	\$0.90	
<i>Anticipated:</i>		
2016 Debt Service Tax Rate.....	\$0.485	(f)
2016 Maintenance Tax Rate.....	<u>0.415</u>	
2016 Total Tax Rate.....	\$0.900	
Average Annual Debt Service Requirement (2017-2041).....	\$203,633	(g)
Maximum Annual Debt Service Requirement (2021).....	\$208,200	(g)
Tax Rate Required to Pay Average Annual Debt Service (2017-2041) at a 90% Collection Rate		
Based upon 2016 Taxable Assessed Valuation.....	\$0.68	
Based upon Estimated Taxable Assessed Valuation as of July 1, 2016.....	\$0.55	
Tax Rate Required to Pay Maximum Annual Debt Service (2021) at a 90% Collection Rate		
Based upon 2016 Taxable Assessed Valuation.....	\$0.69	
Based upon Estimated Taxable Assessed Valuation as of July 1, 2016.....	\$0.56	
Status of Development as of September 15, 2016 (h):		
Total Homes Completed (including 84 occupied,		
16 under contract and 19 unsold).....	119	
Homes Under Construction (3 under contract and 2 unsold).....	5	
Vacant Developed Lots Available for Home Construction.....	129	
Lots Under Construction.....	0	
Estimated Population	294	(i)

- (a) Includes \$33,296,001 of value as certified by the Montgomery Central Appraisal District (the "Appraisal District") and \$429,520 of uncertified value which has not yet been certified for 2016, which totals \$33,725,510. See "TAXING PROCEDURES."
- (b) As estimated by the Appraisal District as of July 1, 2016 for informational purposes only. The 2016 certified assessed valuation established by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2016 to July 1, 2016. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. Consequently, this estimate will not be used to produce tax revenue for the District. See "TAXING PROCEDURES."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes" and "RISK FACTORS—Overlapping Debt and Taxes."
- (d) The District will capitalize twelve (12) months of interest on the Bonds. The amount of interest to be capitalized from Bond proceeds is estimated at 4.00%. See "THE BONDS—Funds," "USE AND DISTRIBUTION OF BOND PROCEEDS" and "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (e) See "RISK FACTORS—District Operations."
- (f) The District intends to levy its initial debt service tax rate in 2016. See "TAX DATA—Debt Service Tax."
- (g) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (h) See "THE DISTRICT—Land Use" and "—Status of Development."
- (i) Based upon 3.5 persons per occupied single-family residence.

PRELIMINARY OFFICIAL STATEMENT

\$3,060,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
(A political subdivision of the State of Texas located within Montgomery County)

UNLIMITED TAX ROAD BONDS SERIES 2016

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 126 (the “District”) of its \$3,060,000 Unlimited Tax Road Bonds, Series 2016 (the “Bonds”).

The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), and an election held within the District on May 9, 2009.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, D.R. Horton – Texas Ltd. (the “Developer”) and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of certain of the documents may be obtained from Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of duplication costs therefor.

RISK FACTORS

General

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

Dependence on Major Taxpayers and the Developer

The ten principal taxpayers represent \$22,655,692 (68.05%) of the certified portion of the 2016 Taxable Assessed Valuation of \$33,296,001. The Developer represents \$19,587,420 (58.83%) of such value. This represents ownership as of January 1, 2016. Principal taxpayer lists related to the uncertified portion of the 2016 Taxable Assessed Valuation (\$429,520) and the Estimated Taxable Assessed Valuation as of July 1, 2016 (\$41,562,021) are currently not available. If the Developer or, in the future, another principal taxpayer were to default in the payment of taxes in an amount which exceeds the District’s debt service fund surplus available for payment of the Bonds, the ability of the District to make timely payment of debt service on the Bonds would be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could force the District to levy a high tax rate to pay principal and interest on its debt, thereby hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its debt service fund. See “Tax Collection Limitations” in this section, “TAX DATA—Principal Taxpayers,” “TAXING PROCEDURES—Levy and Collection of Taxes.”

The Developer has informed the Board that its current plans are to continue building homes on the remaining developed lots in the District and developing the remaining developable acreage; however, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer or any other landowner within the District to implement any plan of development. Furthermore, there is no restriction on any landowner’s right to sell land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer or any other landowner. See “THE DEVELOPER.”

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, undeveloped land and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “THE DISTRICT—Status of Development.”

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

Competition

The demand for and construction of single-family homes in the District could be affected by competition from other developments in the City of Houston, The Woodlands and the City of Conroe, many of which have a more mature development status. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer in the sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Landowner Obligation to the District

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

Undeveloped Acreage and Vacant Lots

There are approximately 185 developable acres of land within the District that have not been fully provided with road, water, wastewater and storm drainage facilities necessary for the construction of taxable improvements. The District makes no representation as to when or if development of this acreage will occur. See “THE DISTRICT—Land Use.”

Maximum Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2016 Taxable Assessed Valuation is \$33,725,521, and the Estimated Taxable Assessed Valuation as of July 1, 2016, is \$41,562,021. After issuance of the Bonds, the maximum annual debt service requirement will be \$208,200 (2021), and the average annual debt service requirement will be \$203,633 (2017-2041 inclusive). Assuming no increase or decrease from the 2016 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of July 1, 2016, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.69 and \$0.69, respectively, based on the 2016 Taxable assessed value and \$0.56 and \$0.55, respectively, based on the estimated taxable assessed valuation as of July 1, 2016, per \$100 of appraised valuation at a ninety percent (90%) collection rate would be necessary to pay both the maximum annual debt service requirement and the average annual debt service requirements. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”

No representation or suggestion is made that the estimated values of land and improvements provided by the Appraisal District as of July 1, 2016 for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

District Operations

The District levied a 2015 maintenance tax in the amount of \$0.90 per \$100 of assessed valuations. The District anticipates increasing its debt service tax rate and reducing its maintenance tax rate in future years to support the Bonds and future bonds. The revenue produced from a lower maintenance tax may not be sufficient to offset the projected operating expenses of the District and will be dependent on growth in the District. The District's General Fund balance as of September 22, 2016 was \$9,780. Maintenance of a positive General Fund balance will depend upon operating advances from the Developer, increased amounts of maintenance tax revenue as a result of growth in the assessed value or increased amounts of water and sewer service revenues.

Tax Collection Limitations

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

Registered Owners' Remedies

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

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

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$6,000,000 in principal amount of unlimited tax bonds have been authorized by the District's voters for financing of road facilities, and, after the issuance of the Bonds, \$2,940,000 in principal amount of said unlimited tax bonds will remain authorized but unissued. Further, a total of \$41,320,000 in principal amount of unlimited tax bonds has been authorized by the District's voters for financing water, sanitary sewer, and storm drainage facilities, and a total of \$4,100,000 principal amount of unlimited tax bonds has been authorized by the District's voters for the purpose of acquiring or constructing recreational facilities, all of which remains unissued. In addition, voters have authorized \$51,420,000 principal amount in unlimited tax refunding bonds, all of which remains unissued, and voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of the Bonds.

After reimbursements are made with Bond proceeds, the District will continue to owe the Developer approximately \$7,650,000 (as of June 30, 2016) plus interest for advances made for the engineering and construction of water, sanitary sewer and storm drainage facilities and road facilities. The District intends to issue additional bonds in order to fully reimburse the Developer for facilities constructed or under construction and to provide water, sanitary sewer, storm drainage and major storm drainage facilities to the remainder of undeveloped but developable land (185 acres). See "THE BONDS—Issuance of Additional Debt". In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. Except with respect to additional bonds for roads, the issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. See "Overlapping Debt and Taxes" in this section and "THE BONDS—Issuance of Additional Debt" and "—Financing of Recreational Facilities."

Environmental Regulation

Wastewater treatment, water supply, storm sewer facilities and construction activities within a utility district such as the District (a "Utility 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; or
- Imposing substantial liabilities for pollution resulting from facility operations.

Sanctions against a 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 a Utility District.

Air Quality/Greenhouse Gas 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.

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Water Supply & Discharge Issues. Water supply and discharge regulations that 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) stormwater discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the Safe Drinking Water Act (“SDWA”), potable (drinking) water provided by a Utility District to more than twenty-five (25) people or fifteen (15) service connections will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

Operations of a Utility District’s sewer facilities will be subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation’s navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued pursuant to the National Pollutant Discharge Elimination System (“NPDES”) program. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant District Elimination System program.

Construction activities and operations of Utility Districts, such as the District, are potentially subject to stormwater discharge permitting requirements under provisions from Section 402 of the Clean Water Act and Chapter 26 of the Texas Water Code. The permitting process is, in most instances, managed by the Commission through its Texas Pollutant Discharge Elimination System (“TPDES”).

The Commission reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. TXR150000 became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. Construction activity by a Utility District (or by its Developer) may require coverage under TXR150000.

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

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on December 13, 2013. The permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems (“MS4s”). The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit and contains more stringent requirements than the standards contained in the previous MS4 Permit. The District is not currently subject to the required MS4 Permit. In the event the District becomes subject to the renewed MS4 Permit, it is anticipated that the District could incur substantial costs to develop and implement the required plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the renewed MS4 Permit.

Operations of Utility Districts, including the District, are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

Continuing Compliance with Certain Covenants

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

Marketability

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

Future and Proposed Legislation

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

THE BONDS

General

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

Description

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

Authority for Issuance

At an election held within the District on May 9, 2009, voters of the District authorized a total of \$6,000,000 principal amount of unlimited tax bonds for the purpose of financing road facilities. The Bonds constitute the first issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$2,940,000 in principal amount of unlimited tax bonds for road facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, including without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, the election held within the District described herein above, and the Bond Order.

Source and Security for Payment

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

Funds

In the Bond Order the District's Bond Fund is created, including the sub-accounts which are used to separate funds received to pay debt service on bonds issued to finance water, wastewater, storm drainage, and recreational facilities ("WSD&R Bonds") from funds received to pay debt service on bonds issued to finance road facilities ("Road Bonds"). In the Bond Order, the District's Construction Fund is created, including the sub-accounts which are used to separate proceeds from WSD&R Bonds and Road Bonds. Accrued interest on the Bonds plus an amount equal to twelve (12) months of interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the sub-account of the Bond Fund created in respect of the Road Bonds. All remaining proceeds of the Bonds will be deposited in the sub-account of the Construction Fund created in respect of Road Bonds.

The proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, into the sub-account of the Bond Fund created in respect of Road Bonds. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and funds in the sub-accounts created in respect of Road Bonds are to be used for payment of debt service on the Bonds and any of the District's duly authorized Road Bonds, whether heretofore, hereunder, or hereafter issued, payable in whole or part from taxes. Amounts on deposit in the sub-accounts of the Bond Fund created in respect of Road Bonds may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any of the Districts duly authorized Road Bonds, whether heretofore, hereunder, or hereafter issued, payable in whole or in part from taxes, and to pay any tax anticipation notes issued in respect of debt service due to or become due on Road Bonds, together with interest thereon, as such tax anticipation notes become due. Funds otherwise on deposit in the Bond Fund, including funds in a sub-account created in respect of WSD&R Bonds, will not be allocated to the payment of the Bonds.

Record Date

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

Redemption Provisions

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

By the Redemption Date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Registration

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

Replacement of Paying Agent/Registrar

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$6,000,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing road facilities. Following the issuance of the Bonds, \$2,940,000 in principal amount of such unlimited tax bonds will remain authorized but unissued. The District's voters have also authorized the issuance of a total of \$41,320,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and storm drainage facilities, all of which remains authorized but unissued, and could authorize additional amounts. The District's voters have also authorized a total of \$51,420,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has \$51,420,000 principal amount of unlimited tax refunding bonds authorized but unissued. The District's voters have also authorized issuance of a total of \$4,100,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts. See “Financing Recreational Facilities” below.

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

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

Financing Road Facilities

Pursuant to the provisions of the Texas Constitution and Chapter 54 Texas Water Code, as amended, conservation and reclamation districts created pursuant to said Chapter 54 are authorized to develop and finance with property taxes certain road facilities following the granting of road powers by the TCEQ and a successful District election to approve the issuance of road bonds payable from taxes. The TCEQ granted road powers to the District and at an election held within the District on May 9, 2009, voters of the District authorized a total of \$6,000,000 principal amount of unlimited tax bonds for financing and constructing road facilities. The Bonds constitute the first issuance of bonds from such authorization and the District could issue additional amounts. See "—Issuance of Additional Debt" herein and RISK FACTORS – Future Debt."

Financing Recreational Facilities

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

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

At an election held within the District on May 9, 2009, voters of the District authorized a total of \$4,100,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts.

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

Abolishment

Under Texas law, the District may be abolished and dissolved by the City of Conroe (the "City") without the District's consent. If the District is abolished, the City will assume the District's assets and obligations (including the Bonds) and abolish the District within ninety (90) days thereafter. Prior to abolishment and dissolution by the City, the District shall have the opportunity to discharge any obligations of the District by selling its bonds or by causing the City to sell bonds of the City in an amount necessary to discharge such obligations. Abolishment of the District by the City is a policymaking matter within the discretion of the Mayor and the City Council of the City, and, therefore, the District makes no representation that abolishment will or will not occur. Moreover, no representation is made concerning the ability of the City to make debt service payments should abolishment occur. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE" for a discussion of certain limitations on the City's right to abolish the District.

Consolidation

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

Remedies in Event of Default

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District, the Financial Advisor nor the Underwriter take any responsibility for the accuracy or completeness thereof.

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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 Bond Order will be given only to DTC.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Edminster, Hinshaw, Russ & Associates, Inc., the District’s engineer (the “Engineer”). Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and FirstSouthwest, a Division of Hilltop Securities Inc. (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and agreed-upon procedures are completed by an independent auditor. The surplus funds, if any, may be expended for any lawful purpose for which surplus road bond construction funds may be used.

CONSTRUCTION COSTS

• Clearing and Grubbing to Serve Palmetto Pointe, Phase One.....	\$ 20,855
• Crest Royale Parkway.....	1,189,068
• Forest Crest Parkway.....	556,473
• Engineering.....	158,957
• Storm Water Compliance.....	23,777
• Geotechnical and Environmental Study.....	4,647
• Traffic Impact Analysis.....	30,008
• Street Lights.....	103,004
• Land Acquisition.....	345,913
Total Construction Costs.....	\$ 2,432,700

NON-CONSTRUCTION COSTS

• Legal Fees.....	\$ 86,500
• Financial Advisory Fees.....	61,200
• Capitalized Interest (a).....	137,700
• Developer Interest (estimated).....	169,909
• Bond Issuance Expenses.....	57,131
• Underwriter's Discount (3%).....	91,800
• Engineering Bond Issue Fees.....	20,000
• Attorney General Fee.....	3,060
Total Non-Construction Costs.....	\$ 627,300

TOTAL BOND ISSUE REQUIREMENT..... \$ 3,060,000

(a) The calculation of capitalized interest shown in the table above is based on an estimated interest rate of 4.50%.

THE DISTRICT

General

The District was created by order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), dated November 20, 2008. The District operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the corporate limits of the City, is subject to the continuing supervisory jurisdiction of the TCEQ.

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

Construction and operation of the District's storm drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

Description and Location

The District currently consists of approximately 330 acres of land in south Montgomery County. The District is located approximately 25 miles north of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City and within the boundaries of the Willis Independent School District. The District is bounded on the north by League Line Road, on the east by Longmire Drive, and the west by Lake Conroe. See “AERIAL LOCATION MAP.”

Land Use

The District currently includes approximately 68 developed acres of single-family residential development (253 lots), a recreation center on approximately 4 acres, approximately 70 undevelopable acres (storm drainage facilities, street right-of-way, open space and undevelopable reserves), approximately 3 acres owned by City of Conroe for a future fire station, and approximately 185 developable acres that have not been provided with water, sanitary sewer and storm drainage facilities. The table below represents a detailed breakdown of the current acreage and development in the District.

	<u>Approximate Acres</u>	<u>Lots</u>
<i>Single-Family Residential</i>		
Water Crest on Lake Conroe:		
Section One	18	107
Section Two.....	11	51
Section Three.....	8	31
Section Four	15	28
Section Seven	12	22
Section Eleven	<u>3</u>	<u>14</u>
Subtotal	68	253
<i>Recreation Facilities (a)</i>	4	---
<i>Fire Station Site (b)</i>	3	---
<i>Future Development</i>	185	---
<i>Non-Developable (c)</i>	<u>70</u>	<u>---</u>
Totals.....	330	253

(a) Includes recently constructed recreation center.

(b) Owned by City of Conroe for future fire station.

(c) Includes detention and storm drainage facilities, street right-of-way, open space and undevelopable reserves.

Status of Development

Single-Family Residential: The development in the District is being marketed as Water Crest on Lake Conroe. As of September 15, 2016, the District consisted of 119 completed homes (including 84 occupied, 16 under contract to a homebuyer and 19 unsold), 5 homes under construction (3 under contract to a homebuyer and 2 unsold) and 129 vacant developed lots. Homes in the District have an average sales price of approximately \$260,000. As of September 15, 2016, the estimated population in the District based upon 3.5 persons per occupied single-family residence was 294.

Homebuilding: The sole homebuilder in the District is D.R. Horton who is the Developer (as hereinafter defined).

Future Development

The District is planned as a primarily residential development. Approximately 185 developable acres of land in the District are not yet served with water distribution, sanitary sewer collection and treatment or storm drainage facilities necessary for the construction of taxable improvements. While the District anticipates future development of this acreage, there can be no assurances given as to whether or when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District. See "RISK FACTORS—Future Debt." The Engineer has stated that under current development plans, the remaining authorized but unissued bonds after issuance of the Bonds (\$41,320,000) should be sufficient to finance the construction of water, sanitary sewer, storm drainage, recreational and road facilities to complete development of the District.

UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE

The District operates pursuant to a Utility Services and Development Agreement between the City and David B. Hendricks and Houston Intercontinental Trade Center, L.P., on behalf of the proposed District, dated as of March 13, 2008, as assigned to the District on March 30, 2011, and supplemented on November 8, 2012 (collectively, the "Utility Agreement"). Pursuant to the Utility Agreement, the City consented to the creation of the District within the city limits of the City, the City agreed to extend water distribution and wastewater collection lines to the District's boundary and provide sufficient water supply and wastewater treatment plant capacity to serve the District at full development, and the District assumed responsibility for acquiring and constructing the water distribution, wastewater collection and drainage facilities to serve development occurring within the boundaries of the District (the "Facilities").

The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the requirements and criteria of the City and all applicable regulatory authorities. The City agrees to provide the District with its ultimate requirements for water supply capacity as needed and when required by the District without capital charges of any kind. The City represents that it has sufficient capacity in the City's wastewater treatment plant to serve the development of the District as needed and when required by the District and that it shall provide these services to the District when needed. The City agrees to make any necessary improvements to its wastewater treatment plant, at no cost to the District, if at any time it does not have sufficient capacity to serve the development in the District.

The District is currently a wholesale water customer of the City, and it is the District's obligation to set rates and charges for the use of the Facilities and to bill and collect such rates and charges from customers of the Facilities. All revenues from the Facilities belong exclusively to the District.

Under certain circumstances, the City has the right to require that all existing Facilities be conveyed to the City and that any new Facilities to be acquired or constructed to serve the District be conveyed to the City, reserving a security interest therein in favor of the District for the purpose of securing the performance of the City under the Utility Agreement. Upon conveyance of the Facilities to the City, the Facilities shall be operated, maintained and managed by the City at its sole cost and expense.

Under the Utility Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities, parks and recreational facilities, and eligible road facilities and related appurtenances. Before the District is authorized to issue bonds, the District must provide the City with a copy of a TCEQ order authorizing issuance of such bonds, if applicable, and such order must provide that under the TCEQ's rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$0.90 per \$100 of taxable assessed valuation. The Utility Agreement expressly provides that such condition is not a limitation on the District's authority to levy an unlimited tax and that the District's bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount. Both the City and the District levy taxes on property within the District. The District must also provide the City with a copy of the applicable preliminary official statement and draft bond order before issuing bonds.

Bonds issued by the District must provide that the District reserves the right to redeem the bonds on any interest payment date subsequent to the fifteenth anniversary of the date of issuance without premium and may be sold only after the taking of public bids. Such bonds, other than refunding bonds, may not be sold for less than 95% of par; provided, however, that the net effective interest rate on such bonds, taking into account any discount or premium as well as the interest rate borne by such bonds, will not exceed 2% above the highest average interest rate reported by the Daily Bond Buyer in its weekly "20 Bond Index" during the one-month period next preceding the date notice of the sale of such bonds is given, and that bids for the Bonds will be received not more than 45 days after notice of sale of the Bonds is given. Bonds issued by the District may not have a maturity of more than 25 years and may not provide for more than 18 months of capitalized interest, unless required by the rules of the TCEQ.

The Utility Agreement provides that the City pays an annual rebate to the District of a portion of the City's tax rate related to the water, wastewater and storm drainage in order to prevent double payment of taxes by taxpayers in the District. The annual rebate is equal to the total assessed value in the District for a given year multiplied by the portion of the City's tax rate that is attributable to water, sewer or storm drainage facilities, which it may increase or decrease over time. The annual rebate payment is to be deposited in the District's debt service fund.

The City's right to dissolve the District is restricted under the Utility Agreement. Under the terms of the Utility Agreement, the City agrees that it will not dissolve the District until ninety percent of the District's Facilities have been developed and the developers advancing funds to construct the Facilities have been reimbursed to the maximum extent permitted by the rules of the TCEQ or the City assumes any obligation for such reimbursement of the District under such rules. The term of the Utility Agreement expires upon the earlier of the dissolution of the District by the City or the expiration of 40 years from the date the Bonds are issued.

THE DEVELOPER

Role of a Developer

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

D. R. Horton - Texas, Ltd.

The developer of the land within the District is D.R. Horton - Texas, Ltd. (the "Developer"), a Texas limited partnership. The Developer is wholly owned by D.R. Horton, Inc. ("D.R. Horton"), a Delaware corporation and publicly held company, the stock of which is listed on the New York Stock Exchange under the ticker symbol "DHI."

D.R. Horton is subject to the information requirements of the Securities and Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission ("SEC"). Reports, proxy statements and other information filed by D.R. Horton can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Regional Office of the SEC located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

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

Neither the Developer, D.R. Horton nor any affiliates of D.R. Horton are responsible for, liable for, or has made any commitment for payment of the Bonds or other obligations of the District. Neither the Developer, D.R. Horton, nor any affiliates of D.R. Horton have any legal commitment to the District or the holders of the Bonds to continue development of the land within the District, and the Developer may sell or otherwise dispose of property within the District, or any assets, at any time. Further, the financial condition of the Developer and D.R. Horton is subject to change, and financial information concerning such entities will not be provided by the District after the sale of the Bonds.

Development Financing

All funds required by the Developer for development activities are provided by D.R. Horton, affiliates of D.R. Horton, or from lot sales. The Developer’s ability to continue development within the District is dependent in part on its continued receipt of funds from D.R. Horton or affiliates of D.R. Horton. Neither D.R. Horton nor such affiliates are legally obligated to continuing providing funds for the development of the District, to provide funds to pay taxes on property in the District owned by the Developer, or to pay any other obligations of the Developer.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms and elections are held in May in even numbered years. None of the Board members reside in the District; however, each of the Board members owns land within the District subject to a deed of trust in favor of the Developer. The current members and officers of the Board, along with their titles and terms, are listed as follows:

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
Gary Calfee	President	May 2020
James D. Poole	Vice President	May 2020
Adam Soffar	Secretary	May 2020
Dan Dominey	Assistant Secretary	May 2018
Irving A. Wolf	Assistant Secretary	May 2018

District Consultants

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

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

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

Disclosure Counsel: The District has engaged Norton Rose Fulbright US LLP as disclosure counsel. The fees paid to disclosure counsel are contingent upon the sale and delivery of the Bonds.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which annual audit is filed with the TCEQ. The District’s financial statements for the year ended July 31, 2015, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. The District has engaged McCall Gibson Swedlund Barfoot PLLC to audit its financial statements for the period ending July 31, 2016. See “APPENDIX A” for a copy of the District’s July 31, 2015, financial statements.

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

Bookkeeper: The District has contracted with Municipal Accounts & Consulting, L.P. (the “Bookkeeper”) for bookkeeping services.

Utility System Operator: The operator of the District’s water, wastewater and storm sewer systems is Municipal Operations & Consulting, Inc.

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

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

THE ROADS

Two major collector streets, Crest Royale Parkway and Forest Crest Parkway, currently exist within the District’s boundaries. Both roadways meet City of Conroe criteria for collector roadway designation. Crest Royale Parkway and Forest Crest Parkway have been accepted by the City of Conroe into a one-year initial warranty period.

These roads lie within the public right-of-way. In addition to the roadway, public utilities such as underground water, sewer and storm drainage facilities are also located within the right-of-way. The right-of-way is also shared by street lights, sidewalks and franchise utilities (power, gas, telephone and cable).

All roadways are designed and constructed in accordance with City standards, rules and regulations. Upon acceptance of roadway facilities, the City will be responsible for operation and maintenance thereof.

THE SYSTEM

Regulation

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

Water Supply and Wastewater Treatment

Water supply and wastewater treatment for the District is provided by the City pursuant to the Utility Agreement. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE.” The City has committed to provide water supply and wastewater capacity to the District adequate to serve the proposed development in the District.

Surface Water Conversion

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

The City is a participant in the San Jacinto River Authority (SJRA) Groundwater Reduction Plan (GRP). The SJRA is constructing a surface water treatment facility and transmission system to provide treated surface water to the City. The transmission system is interconnected to the City’s water system.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

The District has constructed water distribution, wastewater collection, storm drainage and paving facilities to serve 253 lots in Watercrest, Sections 1 through 4, 7 and 11. Water distribution and sanitary sewer collection systems are owned, maintained and operated by the District. See “THE DISTRICT—Land Use.”

100-Year Flood Plain

There is currently one acre of land within the District officially within the 100 year flood plain according to the Federal Emergency Management (“FEMA”) Flood Insurance Rate Maps and the Engineer. Such acre will not be developed.

District Operations

The following statement sets forth in condensed form the General Operating Fund for the District as shown in the District's audited financial statement for the fiscal year ended July 31, 2015 and an unaudited summary for the period ended July 31, 2016, provided by the District's bookkeeper. Such figures are included for informational purposes only. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	Fiscal Year Ended July 31,	
	<u>2016 (a)</u>	<u>2015 (b)</u>
REVENUES:		
Property Taxes	\$ 111,500	\$ 22,157
Water Service	112,497	29,656
Wastewater Service	53,580	12,180
Regional Water Authority Fees	40,823	404
Penalty & Interest	8,523	1,112
Tap Connection/Inspection Fees	96,920	119,102
Miscellaneous Revenue	<u>3,513</u>	<u>474</u>
TOTAL REVENUES	\$ 427,356	\$ 185,085
EXPENDITURES:		
Professional Fees	\$ 175,456	\$ 111,627
Contracted Services	190,301	37,356
Purchased Water Service/Water Authority Fee	62,358	32,240
Repairs and Maintenance	17,051	8,355
Other	21,084	55,200
Bond Issuance Costs		-
Capital Outlay	<u>82,029</u>	<u>28,215</u>
TOTAL EXPENDITURES	\$ 548,278	\$ 272,993
NET REVENUES	\$ (120,922)	\$ (87,908)
Developer Advances	193,000	80,000
FUND BALANCE, BEGINNING OF YEAR	\$ (22,487)	\$ (14,579)
FUND BALANCE, END OF YEAR	\$ 49,591	\$ (22,487)

(a) Unaudited provide by the District's bookkeeper.

(b) Initial audited financial statement.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2016 Taxable Assessed Valuation.....	\$33,725,521	(a)
Estimated Taxable Assessed Valuation as of July 1, 2016.....	\$41,562,021	(b)
Gross Direct Debt Outstanding (including the Bonds).....	\$3,060,000	
Estimated Overlapping Debt	<u>1,188,024</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$4,248,024	
Ratio of Gross Direct Debt to:		
2016 Taxable Assessed Valuation	9.19%	
Estimated Taxable Assessed Valuation as of July 1, 2016	7.36%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2016 Taxable Assessed Valuation	12.76%	
Estimated Taxable Assessed Valuation as of July 1, 2016	10.22%	
Funds Available for Debt Service:		
Capitalized Interest from proceeds of the Bonds (Twelve Months).....	\$122,400	(d)
Funds Available for Operations and Maintenance as of September 22, 2016.....	\$9,780	(e)

- (a) Includes \$33,296,001 of value as certified by the Montgomery Central Appraisal District (the "Appraisal District") and \$429,520 of uncertified value which has not yet been certified for 2016, which totals \$33,725,510. See "TAXING PROCEDURES."
- (b) As estimated by the Appraisal District as of July 1, 2016 for informational purposes only. The 2016 Certified assessed valuation established by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2016 to July 1, 2016. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. Consequently, this estimate will not be used to produce tax revenue for the District. See "TAXING PROCEDURES."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes" and "RISK FACTORS—Overlapping Debt and Taxes."
- (d) The District will capitalize twelve (12) months of interest on the Bonds. The amount of interest to be capitalized from Bond proceeds is estimated at 4.00%. See "THE BONDS—Funds," "USE AND DISTRIBUTION OF BOND PROCEEDS" and "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (e) See "RISK FACTORS—District Operations."

Investments of the District

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

Debt Service Requirements

The following sets forth the estimated debt service on the Bonds at an estimated interest rate per annum of 4.00%. This schedule does not reflect the fact that an amount equal to twelve (12) months of interest will be capitalized from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Debt Service on the Bonds		
	Principal	Interest	Total
2017		\$ 122,400	\$ 122,400
2018	\$ 85,000	122,400	207,400
2019	85,000	119,400	204,400
2020	90,000	116,400	206,400
2021	95,000	113,200	208,200
2022	95,000	109,800	204,800
2023	100,000	106,400	206,400
2024	100,000	102,800	202,800
2025	105,000	99,000	204,000
2026	110,000	95,200	205,200
2027	115,000	91,200	206,200
2028	120,000	87,000	207,000
2029	120,000	82,600	202,600
2030	125,000	78,000	203,000
2031	130,000	73,200	203,200
2032	135,000	68,400	203,400
2033	140,000	63,400	203,400
2034	145,000	58,200	203,200
2035	150,000	52,800	202,800
2036	155,000	47,000	202,000
2037	160,000	41,000	201,000
2038	165,000	34,800	199,800
2039	170,000	28,400	198,400
2040	180,000	21,800	201,800
2041	185,000	14,800	199,800
Total	\$ 3,060,000	\$ 1,957,200	\$ 5,017,200

Average Annual Debt Service Requirements (2017-2041) \$203,633
 Maximum Annual Debt Service Requirement (2021) \$208,200

Estimated Overlapping Debt

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

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Overlapping Percent</u>	<u>Amount</u>
Montgomery County	\$426,470,000	05/31/16	0.03%	\$ 127,941
City of Conroe	119,705,000	05/31/16	0.23%	275,322
Willis Independent School District	119,332,276	05/31/16	0.61%	727,927
Lone Star College System	568,335,000	05/31/16	0.01%	<u>56,834</u>
Total Estimated Overlapping Debt				\$ 1,188,024
The District's Total Direct Debt (a)				<u>3,060,000</u>
Total Direct and Estimated Overlapping Debt				\$4,248,024
Direct and Estimated Overlapping Debt as a Percentage of:				
2016 Taxable Assessed Valuation of \$33,725,521				12.76%
Estimated Taxable Assessed Valuation as of July 1, 2016 of \$41,562,021				10.22%

(a) The Bonds.

Overlapping Taxes

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

Set forth below are all of the taxes levied for the 2015 tax year by the District and all taxing jurisdictions overlapping the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>Tax Rate Per \$100 Appraised Valuation</u>
Montgomery County	\$ 0.4767
Montgomery County Hospital District	0.0710
Willis Independent School District	1.3900
City of Conroe	0.4200
Lone Star College System	<u>0.1079</u>
Total Overlapping Tax Rate	\$ 2.4656
The District	<u>0.9000</u>
Total Tax Rate	\$ 3.3656

TAX DATA

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District intends to levy its initial debt service tax rate in 2016. See “Tax Rate Distribution” and “Tax Roll Information” below, and “TAXING PROCEDURES” and “RISK FACTORS—Factors Affecting Taxable Values and Tax Payment.”

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was held on May 9, 2009, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 assessed valuation for general operations and maintenance costs. At the same election, voters authorized the Board to levy a maintenance tax for operations and maintenance costs of recreational facilities at a rate not to exceed \$0.10 per \$100 assessed valuation. The District levied a \$0.90 maintenance and operations tax rate for 2015. It has not levied a maintenance and operations tax for recreational facilities to date. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

Tax Exemptions

The District has not adopted any tax exemptions for property located within the District. See “TAXING PROCEDURES—Property Subject to Taxation by The District.”

Tax Rate Distribution

	Anticipated			
	2016	2015	2014	2013(b)
Debt Service	\$ 0.485	\$ -	\$ -	\$ -
Maintenance	0.415	0.900	0.900	0.900
Total	\$ 0.900	\$ 0.900	\$ 0.900	\$ 0.900

- (a) See “RISK FACTORS—District Operations.”
 (b) Initial year of tax rate levy.

Historical Tax Collections

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

Tax Year	Net Taxable		Tax Rate	Total (b) Tax Levy	Total Collections As of 8/31/2016 (c)	
	Assessed Valuation (a)				Amount	Percent
2015	\$ 14,622,873		\$ 0.90	\$ 131,606	\$ 131,606	100.00%
2014	2,461,900		0.90	22,157	22,157	100.00%
2013	2,585,980		0.90	23,274	23,274	100.00%

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
 (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date of this OFFICIAL STATEMENT.
 (c) Reflects unaudited collections.

Tax Roll Information

The District’s appraised value as of January 1 of each year is used by the District in establishing its tax rate. See “TAXING PROCEDURES—Valuation of Property for Taxation.” The following represents the composition of property comprising the 2016 through 2014 Certified Taxable Assessed Valuations. Breakdowns of the uncertified portion of the 2016 Taxable Assessed Valuation (\$429,520) and the Estimated Taxable Assessed Valuation as of July 1, 2016, of \$41,562,021 are not available from the Appraisal District. Information in this summary may differ slightly from the assessed valuations shown herein due to difference in dates of data.

	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation	2014 Taxable Assessed Valuation
Land	\$ 19,025,950	\$ 14,686,580	\$ 3,448,160
Improvements	15,068,670	5,300	6,460
Personal Property	93,955	-	-
Exemptions	<u>(892,574)</u>	<u>(69,007)</u>	<u>(992,720)</u>
Total Taxable Assessed Valuation	\$ 33,296,001	\$ 14,622,873	\$ 2,461,900

Principal Taxpayers

The following table represents the principal taxpayers and their taxable appraised value as a percentage of the certified portion of 2016 Taxable Assessed Valuation (\$33,296,001). This represents ownership as of January 1, 2016. Principal taxpayer lists related to the uncertified portion of the 2016 Taxable Assessed Valuation (\$429,520) and the Estimated Taxable Assessed Valuation as of July 1, 2016, of \$41,562,021 are not available from the Appraisal District.

Taxpayer	Taxable Assessed Value	% of 2016 Taxable Assessed Value
DR Horton Texas Ltd. (a)	\$ 19,587,420	58.83%
Individual	405,710	1.22%
Individual	382,102	1.15%
Individual	335,820	1.01%
Individual	329,010	0.99%
Individual	327,840	0.98%
Individual	327,360	0.98%
Individual	326,350	0.98%
Individual	319,420	0.96%
Individual	<u>314,660</u>	<u>0.95%</u>
Total	\$ 22,655,692	68.05%

(a) See “THE DEVELOPER.”

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum debt service requirements on the Bonds if no growth in the District’s tax base occurred beyond the 2016 Taxable Assessed Valuation of \$33,725,521 and the Estimated Taxable Assessed Valuation as of July 1, 2016 of \$41,562,021. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds when due, assuming no further increase or any decrease in taxable value in the District, collection of ninety percent (90%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”

Average Annual Debt Service Requirement (2017-2041)	\$203,633
\$0.68 Tax Rate on 2016 Taxable Assessed Valuation	\$206,400
\$0.55 Tax Rate on Estimated Taxable Assessed Valuation as of July 1, 2016	\$205,732
Maximum Annual Debt Service Requirement (2021).....	\$208,200
\$0.69 Tax Rate on 2016 Taxable Assessed Valuation	\$209,435
\$0.56 Tax Rate on Estimated Taxable Assessed Valuation as of July 1, 2016.....	\$209,473

No representation or suggestion is made that the preliminary and estimated values of land and improvements provided by the Appraisal District as of January 1, 2016 and July 1, 2016, respectively, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

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

a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

General Residential Homestead Exemption

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

Valuation of Property for Taxation

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

District and Taxpayer Remedies

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

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

Agricultural, Open Space, Timberland and Inventory Deferment

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

Tax Abatement

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

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

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

LEGAL MATTERS

Legal Opinions

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

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

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

Legal Review

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

Tax Exemption

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

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

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

Qualified Tax-Exempt Obligations

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

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

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

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

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

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

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

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

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

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

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

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

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

Auditor: The District's financial statements for the year ended July 31, 2015, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's July 31, 2015, financial statements.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—District Operations" has been provided by Municipal Accounts & Consulting, L.P. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the SEC Rule 15c2-12(d)(2) exemption from SEC Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of bonds outstanding and no person is committed by contract or other arrangement with respect to payment of the Bonds. In the Bond Order, the District has made the following agreement for the benefit of the Registered and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access system ("EMMA").

Annual Reports

The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB through EMMA. In addition, the District has agreed to provide information with respect to the Developer, any person or entity to whom either Developer voluntarily assigns (except as collateral) the right to receive a payment out of the proceeds from the sale of the bonds of the District, and each other person or entity, if any, to whom the District voluntarily makes or agrees or has agreed to make a payment out of such proceeds. The District will be obligated to provide information concerning the Developer and any such other person or entity only if and so long as (1) such person owns more than 20% of the taxable property within the District by value, as reflected by the most recently certified tax rolls (and without effect to special valuation provisions), (2) such person has made tax or other payments to the District which were used or available to pay more than 20% of the District's debt service requirements in the applicable fiscal year, or (3) at the end of such fiscal year such person is obligated to the District to provide or pay for District facilities or debt in an amount which exceeds 20% of the amount of the District's bonds then outstanding.

The financial information and operating data which will be provided with respect to the District and to be updated annually is found in Appendix A (Financial Statements of the District and certain Supplemental Schedules) and with respect to the Developer is found in "TAX DATA—Principal Taxpayers." The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2016.

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

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

Specified Event Notices

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-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 CFR § 240.15c2-12 (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 financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as changed circumstances, and either the Holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of SEC Rule 15c2-12 or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

The District has not previously entered into a continuing disclosure agreement.

MISCELLANEOUS

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

/s/ _____
President, Board of Directors

ATTEST:

/s/ _____
Secretary, Board of Directors

AERIAL LOCATION MAP
(Approximate Boundaries as of July 2016)

LAKE CONROE

LEAGUE LINE RD.

LONGMIRE RD.



MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT No. 126



PHOTOGRAPHS OF THE DISTRICT
(Taken July 2016)













APPENDIX A

Financial Statement of the District for the year ended July 31, 2015

The information contained in this appendix includes the Audited Financial Statements of Montgomery County Municipal Utility District No. 126 and certain supplemental information for the fiscal year ended July 31, 2015.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Municipal Utility District No. 126
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of Montgomery County Municipal Utility District No. 126 (the "District"), as of and for the year ended July 31, 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Montgomery County Municipal
Utility District No. 126

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of July 31, 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 Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

December 10, 2015

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015**

Management's discussion and analysis of Montgomery County Municipal Utility District No. 126's (the "District") financial performance provides an overview of the District's financial activities for the year ended July 31, 2015.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015**

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for resources not accounted for in another fund, maintenance tax revenues, operating costs and general expenditures.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$428,158 as of July 31, 2015.

The following table provides a summary of the Statement of Net Position as of July 31, 2015:

	<u>Summary of the Statement of Net Position</u>
	<u>2015</u>
Current and Other Assets	\$ 37,141
Capital Assets (Net of Accumulated Depreciation)	<u>2,537,066</u>
Total Assets	<u>\$ 2,574,207</u>
Due to Developer	\$ 2,942,737
Other Liabilities	<u>59,628</u>
Total Liabilities	<u>\$ 3,002,365</u>
Net Position:	
Net Investment in Capital Assets	\$ (1,171)
Unrestricted	<u>(426,987)</u>
Total Net Position	<u>\$ (428,158)</u>

The following table provides a summary of the District's operations for the year ended July 31, 2015. The District's net position decreased by \$89,079.

	<u>Summary of the Statement of Activities</u>
	<u>2015</u>
Revenues:	
Property Taxes	\$ 22,157
Charges for Services	162,454
Other Revenues	<u>474</u>
Total Revenues	\$ 185,085
Expenses for Services	<u>274,164</u>
Change in Net Position	\$ (89,079)
Net Position, Beginning of Year	<u>(339,079)</u>
Net Position, End of Year	<u>\$ (428,158)</u>

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The General Fund fund balance as of July 31, 2015, was a deficit of \$22,487, a decrease of \$7,908 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the current fiscal year. Actual revenues were \$54,167 more than budgeted revenues primarily due to higher than anticipated water service and tap fee revenues than were anticipated. Actual expenditures were \$77,201 more than budgeted expenditures primarily due to higher than anticipated professional fees, contracted services, purchased water/water authority fees and capital costs.

CAPITAL ASSETS

Capital assets as of July 31, 2015, total \$2,537,066 (net of accumulated depreciation) and include water, wastewater and drainage systems. Significant capital asset activity during the current fiscal year included engineering and construction costs for water, wastewater and drainage facilities for Water Crest, Sections 1, 2 and 3, Water Crest Parkway and Water Crest sanitary sewer extension.

Capital Assets At Year-End, Net of Accumulated Depreciation	
	2015
Capital Assets, Net of Accumulated Depreciation:	
Water System	\$ 576,144
Wastewater System	665,141
Drainage System	1,295,781
Total Net Capital Assets	\$ 2,537,066

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015**

LONG-TERM DEBT ACTIVITY

As of the end of the current fiscal year, the District did not have any long-term debt with the exception of amounts due to the developer. See Note 8.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Municipal Utility District No. 126, c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JULY 31, 2015

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	\$ 29,091	\$	\$ 29,091
Receivables:			
Service Accounts	8,050		8,050
Capital Assets (Net of Accumulated Depreciation)		2,537,066	2,537,066
TOTAL ASSETS	\$ 37,141	\$ 2,537,066	\$ 2,574,207
LIABILITIES			
Accounts Payable	\$ 43,128	\$	\$ 43,128
Unearned Tap Revenue	15,300		15,300
Due to Developers		2,942,737	2,942,737
Security Deposits	1,200		1,200
TOTAL LIABILITIES	\$ 59,628	\$ 2,942,737	\$ 3,002,365
FUND BALANCE (DEFICIT)			
Unassigned	\$ (22,487)	\$ 22,487	\$ -0-
TOTAL LIABILITIES AND FUND BALANCE	\$ 37,141		
NET POSITION			
Net Investment in Capital Assets		\$ (1,171)	\$ (1,171)
Unrestricted		(426,987)	(426,987)
TOTAL NET POSITION		\$ (428,158)	\$ (428,158)

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JULY 31, 2015**

Total Fund Balance - Governmental Fund	\$ (22,487)
--	-------------

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

Capital assets in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	2,537,066
---	-----------

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Due to Developer</td> <td style="width: 20%; text-align: right;"><u>(2,942,737)</u></td> </tr> </table>	Due to Developer	<u>(2,942,737)</u>	
Due to Developer	<u>(2,942,737)</u>		
Total Net Position - Governmental Activities	<u><u>\$ (428,158)</u></u>		

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JULY 31, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property Taxes	\$ 22,157	\$	\$ 22,157
Water Service	29,656		29,656
Wastewater Service	12,180		12,180
Regional Water Authority Fees	404		404
Penalty and Interest	1,112		1,112
Tap Connection and Inspection Fees	119,102		119,102
Miscellaneous Revenues	474		474
	<u>185,085</u>		<u>185,085</u>
TOTAL REVENUES	\$ 185,085	\$ - 0 -	\$ 185,085
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 111,627	\$	\$ 111,627
Contracted Services	37,356		37,356
Purchased Water Service/Water Authority Fees	32,240		32,240
Repairs and Maintenance	8,355		8,355
Depreciation		29,386	29,386
Other	55,200		55,200
Capital Outlay	28,215	(28,215)	
	<u>272,993</u>	<u>1,171</u>	<u>274,164</u>
TOTAL EXPENDITURES/EXPENSES	\$ 272,993	\$ 1,171	\$ 274,164
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ (87,908)	\$ (1,171)	\$ (89,079)
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$ 80,000	\$ (80,000)	\$ -0-
	<u>80,000</u>	<u>(80,000)</u>	<u>-0-</u>
NET CHANGE IN FUND BALANCE	\$ (7,908)	\$ 7,908	\$
CHANGE IN NET POSITION		(89,079)	(89,079)
FUND BALANCE (DEFICIT)/NET POSITION - AUGUST 1, 2014	(14,579)	(324,500)	(339,079)
	<u>(14,579)</u>	<u>(324,500)</u>	<u>(339,079)</u>
FUND BALANCE (DEFICIT)/NET POSITION - JULY 31, 2015	\$ (22,487)	\$ (405,671)	\$ (428,158)
	<u>(22,487)</u>	<u>(405,671)</u>	<u>(428,158)</u>

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2015**

Net Change in Fund Balance - Governmental Fund	\$	(7,908)
--	----	---------

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

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(29,386)
--	--	----------

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		28,215
---	--	--------

Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability.		(80,000)
--	--	----------

Change in Net Position - Governmental Activities	\$	<u>(89,079)</u>
--	----	-----------------

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

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 1. CREATION OF DISTRICT

Montgomery County Municipal Utility District No. 126 of Montgomery County, Texas (the “District”) was created on November 20, 2008, by an Order of the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, roads, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its organizational meeting on February 20, 2009.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense.

Fund Financial Statements

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

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

Basis of Accounting

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

Property taxes considered available by the District and included in revenue include the taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonable expect to be collected soon enough in the subsequent period to finance current expenditures.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

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

	<u>Years</u>
Water System	10-45
Wastewater System	10-45
Storm Drainage System	10-45
All Other Equipment	3-20

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

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

Measurement Focus

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 3. LONG-TERM DEBT

As of July 31, 2015, the District has authorized and unissued bonds in the amount of \$41,320,000 for water, wastewater and drainage facilities, authorized and unissued bonds in the amount of \$4,100,000 for recreational facilities, authorized and unissued bonds in the amount of \$6,000,000 for roads, and authorized and unissued refunding bonds in the amount of \$51,420,000.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District’s deposits was \$29,091 and the bank balance was \$29,230. All of the bank balance was covered by federal depository insurance. The carrying values of the deposits are included in the Governmental Fund Balance Sheet and the Statement of Net Position at July 31, 2015, as listed below:

	Cash
DEPOSITS - GENERAL FUND	\$ 29,091

Investments

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of July 31, 2015, the District had no investments.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended July 31, 2015:

	August 1, 2014	Increases	Decreases	July 31, 2015
Capital Assets Subject to Depreciation				
Water System	\$	\$ 583,663	\$	\$ 583,663
Wastewater System		672,361		672,361
Drainage System		1,310,428		1,310,428
Total Capital Assets Subject to Depreciation	\$ - 0 -	\$ 2,566,452	\$ - 0 -	\$ 2,566,452
Accumulated Depreciation				
Water System	\$	\$ 7,519	\$	\$ 7,519
Wastewater System		7,220		7,220
Drainage System		14,647		14,647
Total Accumulated Depreciation	\$ - 0 -	\$ 29,386	\$ - 0 -	\$ 29,386
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ - 0 -	\$ 2,537,066	\$ - 0 -	\$ 2,537,066

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 6. MAINTENANCE TAX

On May 9, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. During the year ended July 31, 2015, the District levied an ad valorem maintenance tax rate of \$0.90 per \$100 of assessed valuation, which resulted in a tax levy of \$22,157 on the adjusted taxable valuation of \$2,461,900 for the 2014 tax year.

On May 9, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District to be used by the General Fund to pay expenditures for maintenance and other authorized purposes related to recreational facilities. As of the end of the current fiscal year, the District has not yet levied this particular tax.

Levy Date - October 1, or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 7. UTILITY SERVICES AND DEVELOPMENT AGREEMENT

On March 13, 2008, and as supplemented on November 8, 2012, the District entered into the Utility Services and Development Agreement with the City of Conroe (the "City"). Pursuant to this agreement, the City agreed to consent to the creation of the District within its city limits. The District is responsible for acquiring and constructing the water distribution, wastewater collection and drainage facilities (the "facilities") to serve development within the District.

The agreement provides that the facilities shall be designed and constructed in accordance with the City's requirements. The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity without charging the District any type of capital charge.

In accordance with the agreement, the City is to provide water supply and wastewater services to the District at rates established by the City for general application to commercial customers of the City.

In accordance with the agreement, the District is authorized to issue bonds for the purpose of financing the construction and acquisition of the facilities. Prior to issuing any bonds, the District must provide the City with a copy of the Commission order authorizing the issuance of the bonds and such order must provide that under the Commission rules governing the issuance

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 7. UTILITY SERVICES AND DEVELOPMENT AGREEMENT (Continued)

of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$0.90 per \$100 of assessed valuation. The agreement provides that such condition is not a limitation on the District's authority to levy an unlimited tax and that the District's bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount.

The agreement provides that the City will pay an annual rebate to the District. The annual rebate is equal to the total assessed value in the District for the given year multiplied by the portion of the City's tax rate that is attributable to water, sewer and drainage facilities. This annual rebate is to be deposited into the District's Debt Service Fund.

The term of the agreement is the earlier of the dissolution of the District by the City or 40 years. The City's right to dissolve the District is restricted per the agreement. Under the terms of the agreement, the City agrees that it will not dissolve the District until 90% of the District's facilities have been developed and the Developers have been reimbursed for advancing funds to construct the facilities to the maximum extent permitted by the rules of the Commission or the City assumes any obligations for such payment by the District under such rules.

NOTE 8. UNREIMBURSED DEVELOPER COSTS

The District has executed developer financing agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, sewer, and drainage facilities until such time as the District can sell bonds. As reflected in the Statement of Net Position, \$2,538,237 has been recorded as a liability for facilities financed by Developers. Reimbursement to the Developers will come from future bond sales.

A Developer has also advanced money to the District's General Fund in order for the District to meet its ongoing financial obligations. The Developer has made operating advances of \$404,500 to help cover the operating deficits, of which \$80,000 was advanced during the current fiscal year. The District has recorded a liability for this amount in the Statement of Net Position at July 31, 2015.

NOTE 9. RISK MANAGEMENT

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 10. ECONOMIC DEPENDENCY AND DEFICIT FUND BALANCE

The District has experienced operating deficits and is dependent on operating advances to be made to meet its financial obligations during the startup period. The District has recorded a deficit fund balance in the General Fund of \$22,487. The District expects the deficit to be alleviated as growth in the number of residents and the accompanying tax base continues.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2015

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2015

	Original Budget	Amended and Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 23,000	\$ 21,049	\$ 22,157	\$ 1,108
Water Service	8,497	8,497	29,656	21,159
Wastewater Service	9,324	9,324	12,180	2,856
Regional Water Authority Fee	3,575	3,575	404	(3,171)
Penalty and Interest	645	645	1,112	467
Tap Connection and Inspection Fees	97,680	87,600	119,102	31,502
Miscellaneous Revenues	<u>228</u>	<u>228</u>	<u>474</u>	<u>246</u>
TOTAL REVENUES	<u>\$ 142,949</u>	<u>\$ 130,918</u>	<u>\$ 185,085</u>	<u>\$ 54,167</u>
EXPENDITURES				
Services Operations:				
Professional Fees	\$ 95,000	\$ 97,000	\$ 111,627	\$ (14,627)
Contracted Services	21,200	23,600	37,356	(13,756)
Purchased Water Service/Water Authority Fees	8,064	8,064	32,240	(24,176)
Purchased Wastewater Service	4,570	4,570		4,570
Repairs and Maintenance	15,000	9,000	8,355	645
Other	53,558	53,558	55,200	(1,642)
Capital Outlay			<u>28,215</u>	<u>(28,215)</u>
TOTAL EXPENDITURES	<u>\$ 197,392</u>	<u>\$ 195,792</u>	<u>\$ 272,993</u>	<u>\$ (77,201)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (54,443)</u>	<u>\$ (64,874)</u>	<u>\$ (87,908)</u>	<u>\$ (23,034)</u>
OTHER FINANCING SOURCES(USES)				
Developer Advances	<u>\$ 54,443</u>	<u>\$ 64,874</u>	<u>\$ 80,000</u>	<u>\$ 15,126</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ (7,908)	\$ (7,908)
FUND BALANCE - AUGUST 1, 2014	<u>(14,579)</u>	<u>(14,579)</u>	<u>(14,579)</u>	
FUND BALANCE - JULY 31, 2015	<u>\$ (14,579)</u>	<u>\$ (14,579)</u>	<u>\$ (22,487)</u>	<u>\$ (7,908)</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

JULY 31, 2015

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2015**

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

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 3/4" METER (OR EQUIVALENT):

Based on the rate order effective June 19, 2014.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 30.00	3,000	N	\$ 3.08 \$ 3.66 \$ 4.18 \$ 7.32	3,001 to 15,000 15,001 to 25,000 25,001 to 35,000 35,001 and above
WASTEWATER:	\$ 21.00	3,000	N	\$ 3.55	3,001 and above
SURCHARGE:	\$ 2.16 per 1,000 gallons			\$ 2.16	per 1,000

District employs winter averaging for wastewater usage? _____ X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$51.56 Wastewater: \$45.85 Surcharge: \$21.60

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2015**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

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

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: *

* Information unavailable at time of audit.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2015**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely Partly Not at all

City in which District is located:

Conroe, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2015

PROFESSIONAL FEES:	
Engineering	\$ 14,584
Legal	<u>97,043</u>
TOTAL PROFESSIONAL FEES	<u>\$ 111,627</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service/Water Authority Fees	<u>\$ 32,240</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 171
Bookkeeping	9,585
Operations and Billing	24,000
Tax Collector	<u>3,600</u>
TOTAL CONTRACTED SERVICES	<u>\$ 37,356</u>
REPAIRS AND MAINTENANCE	<u>\$ 8,355</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 6,450
Insurance	3,768
Office Supplies and Postage	1,620
Payroll Taxes	493
Travel and Meetings	64
Other	<u>1,730</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 14,125</u>
CAPITAL OUTLAY	<u>\$ 28,215</u>
TAP CONNECTIONS	<u>\$ 38,420</u>
OTHER EXPENDITURES:	
Permit Fees	\$ 209
Other	<u>2,446</u>
TOTAL OTHER EXPENDITURES	<u>\$ 2,655</u>
TOTAL EXPENDITURES	<u>\$ 272,993</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2015**

	Maintenance Taxes	
TAXES RECEIVABLE -		
AUGUST 1, 2014	\$	
Adjustments to Beginning		
Balance	\$	-0-
Original 2014 Tax Levy	\$ 22,157	
Adjustment to 2014 Tax Levy		22,157
	\$	22,157
TOTAL TO BE		
ACCOUNTED FOR		\$ 22,157
TAX COLLECTIONS:		
Prior Years	\$	
Current Year	22,157	22,157
	\$	22,157
TAXES RECEIVABLE -		
JULY 31, 2015		\$ -0-

See accompanying independent auditor's report.

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**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2015**

	2014
PROPERTY VALUATIONS:	
Land	\$ 3,448,160
Improvements	6,460
Exemptions	(992,720)
TOTAL PROPERTY VALUATIONS	\$ 2,461,900
TAX RATES PER \$100 VALUATION:	
Maintenance	\$ 0.90
ADJUSTED TAX LEVY*	\$ 22,157
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	100.00 %

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

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on May 9, 2009.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2015*	2014	2013
REVENUES			
Property Taxes	\$ 22,157	\$	\$
Water Service	29,656		
Wastewater Service	12,180		
Regional Water Authority Fees	404		
Penalty and Interest	1,112		
Tap Connection and Inspection Fees	119,102		
Miscellaneous Revenues	474		
TOTAL REVENUES	\$ 185,085	\$	\$
EXPENDITURES			
Professional Fees	\$ 111,627	\$	\$
Contracted Services	37,356		
Purchased Water Service/Water Authority Fees	32,240		
Repairs and Maintenance	8,355		
Other	55,200		
Capital Outlay	28,215		
TOTAL EXPENDITURES	\$ 272,993	\$	\$
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (87,908)	\$	\$
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$ 80,000	\$	\$
NET CHANGE IN FUND BALANCE	\$ (7,908)	\$	\$
BEGINNING FUND BALANCE	(14,579)		
ENDING FUND BALANCE	\$ (22,487)	\$ N/A	\$ N/A
TOTAL ACTIVE RETAIL WATER CONNECTIONS	**	N/A	N/A
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	**	N/A	N/A

* First year audit.

** Information unavailable at time of audit.

See accompanying independent auditor's report.

		Percentage of Total Revenue				
<u>2012</u>	<u>2011</u>	<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$	\$	12.0 %				
		16.0				
		6.6				
		0.2				
		0.6				
		64.3				
		0.3				
<u>\$</u>	<u>\$</u>	<u>100.0 %</u>				
\$	\$	60.3 %				
		20.2				
		17.4				
		4.5				
		29.8				
		15.2				
<u>\$</u>	<u>\$</u>	<u>147.4 %</u>				
<u>\$</u>	<u>\$</u>	<u>(47.4) %</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$	\$					
\$	\$					
<u>\$ N/A</u>	<u>\$ N/A</u>					
<u>N/A</u>	<u>N/A</u>					
<u>N/A</u>	<u>N/A</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2015

District Mailing Address - Montgomery County Municipal Utility District No. 126
c/o Schwartz, Page & Harding, L.L.P.
1300 Post Oak Boulevard, Suite 1400
Houston, TX 77056

District Telephone Number - (713) 623-4531

Board Members:	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>July 31, 2015</u>	Expense Reimbursements for the year ended <u>July 31, 2015</u>	<u>Title</u>
Gary Calfee	05/2012 05/2016 (Elected)	\$ 1,650	\$ -0-	President
James D. Poole	04/2015 05/2016 (Appointed)	\$ 900	\$ -0-	Vice President
Adam Soffar	05/2012 05/2016 (Elected)	\$ 1,050	\$ -0-	Secretary
Dan Dominey	05/2014 05/2018 (Elected)	\$ 1,650	\$ -0-	Assistant Secretary
Irving A. Wolf	05/2014 05/2018 (Elected)	\$ 1,200	\$ -0-	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
April 24, 2015.

The limit on Fees of Office that a Director may receive during a fiscal year is the maximum amount allowed by law as set by Board Resolution (TWC Section 49.060) on February 20, 2009. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2015

Consultants:	<u>Date Hired</u>	<u>Fees / Compensation for the year ended July 31, 2015</u>	<u>Title</u>
Schwartz, Page & Harding, L.L.P.	02/20/09	\$ 100,914	Attorney
McCall Gibson Swedlund Barfoot PLLC	07/09/15	\$ -0-	Auditor
Municipal Accounts & Consulting, L.P.	02/20/09	\$ 10,524	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/13/14	\$ -0-	Delinquent Tax Attorney
Edminster, Hinshaw, Russ & Associates, Inc.	02/20/09	\$ 14,584	Engineer
First Southwest Company, LLC	02/20/09	\$ -0-	Financial Advisor
Mark Burton	02/20/09	\$ -0-	Investment Officer
Aqua Texas, Inc.	02/20/09	\$ 95,801	Operator
Assessments of the Southwest	06/07/13	\$ 3,625	Tax Assessor/ Collector

See accompanying independent auditor's report.