



Control Number: 45656



Item Number: 13

Addendum StartPage: 0

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PUBLIC UTILITY COMMISSION
FILING CLERK

APPLICATION OF AQUA TEXAS, INC. §
AND MONTGOMERY COUNTY §
MUNICIPAL UTILITY DISTRICT NO. §
126 FOR APPROVAL OF A SERVICE §
AGREEMENT DESIGNATING §
SERVICE AREA AND CERTIFICATE §
RIGHTS, AND TO DECERTIFY §
CERTAIN AREAS IN MONTGOMERY §
COUNTY §

BEFORE THE PUBLIC UTILITY

COMMISSION OF TEXAS

APPLICANTS' SUPPLEMENTAL SALE/TRANSFER APPLICATION INFORMATION

TO THE HONORABLE ADMINISTRATIVE LAW JUDGE:

COME NOW, Aqua Texas, Inc. d/b/a Aqua Texas ("Aqua") and Montgomery County Municipal Utility District No. 126 ("MUD 126") (collectively, "Applicants") and hereby file this Applicants' Supplemental Sale/Transfer Application Information. In support thereof, Applicants would show the following.

Previously, on February 24, 2016, Applicants submitted a Petition for Approval and Enforcement of Certain Contract Terms Designating Certificate of Convenience and Necessity ("CCN") Service Areas under Texas Water Code (TWC) §13.248 and for Decertification of Areas under TWC §13.254 ("Application"). The relief requested affects a portion of Aqua's water CCN No. 13203 and a portion of Aqua's sewer CCN No. 21065 located in Montgomery County, Texas.

Subsequently, Commission Staff informed the Applicants that, in its view, MUD 126 is not eligible to receive CCN area transferred from Aqua or any other entity designated under authority of TWC §13.248 because MUD 126 does not already possess a CCN. Therefore, Staff requested Applicants prepare and file the Commission's sale, transfer, or merger (STM) application form as applicable to supplement the Application and seek authority for the CCN area transfer contemplated in Applicants' agreement under TWC §13.251 and P.U.C. SUBST. R. 24.112, but not TWC §13.301

or 24.109 since no system assets or customers are contemplated for transfer along with the CCN areas. While Applicants contend TWC §13.248 and P.U.C. SUBST. R. 24.117 remain an appropriate statutory vehicle for the relief sought herein pursuant to Applicants' agreement, Applicants are making the change to their Application as requested.

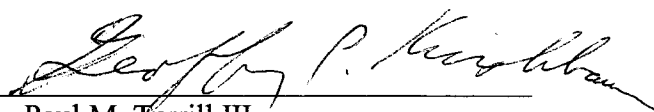
Thus, for the foregoing reasons, Applicants hereby file the attached completed STM application form and attachments as a supplement to their Application and amend their request for relief to sell/transfer Aqua CCN areas to MUD 126 under authority of TWC § 13.251 and P.U.C. SUBST. R. 24.112. Applicants' proposed notice and notice entities list are included with this filing.

CONCLUSION

Aqua Texas, Inc. and Montgomery County Municipal Utility District No. 126 respectfully request the Commission now process this Application under Texas Water Code §13.251 and P.U.C. SUBST. R. 24.112 with respect to the agreed upon CCN transfers described herein and continue to process Applicants' decertification requests pursuant to Texas Water Code §13.254(a) and P.U.C. SUBST. R. 24.113(a) as originally requested. If for any reason the Commission finds the information submitted with this Application is insufficient for application acceptance, Aqua respectfully requests that it be notified immediately and provided an opportunity to cure any deficiencies identified.

Respectfully submitted,

THE TERRILL FIRM, P.C.

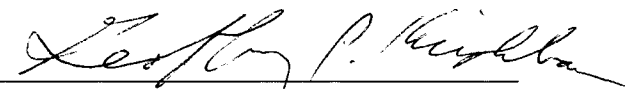
By: 

Paul M. Terrill III
State Bar No. 00785094
Geoffrey P. Kirshbaum
State Bar No. 24029665
810 West 10th Street
Austin, Texas 78701
Tel: (512) 474-9100
Fax: (512) 474-9888

**ATTORNEYS FOR AQUA TEXAS, INC. D/B/A
AQUA TEXAS**

CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on June 29, 2016 in accordance with P.U.C. Procedural Rule 22.74.



Geoffrey P. Kirshbaum



Application for Sale, Transfer, or Merger of a Retail Public Utility

Pursuant to Chapter 13.251 of the Texas Water Code

Docket Number: 45656

(this number will be assigned by the Public Utility Commission after your application is filed)

7 copies of the application, including the original, along with one copy of the portable electronic storage medium (such as CD or DVD) containing the GIS data shall be filed with

Public Utility Commission of Texas
Attention: Filing Clerk
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

No later than seven days after filing the application for the boundary change, provide a copy of each paper map and a portable electronic storage medium (such as CD, flash drive or DVD) containing complete and identical data to the portable electronic storage medium submitted above to

Texas Natural Resources Information System
1700 N. Congress Ave, Room B40
Austin, Texas 78701

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Part A – General Information

*CN# Aqua Texas CN604062463
Montgomery County MUD 126 CN 603385923

* (PRIOR TCEQ ID numbers)

1. Proposed action of application (check all the boxes that apply):

<input checked="" type="checkbox"/> Sale of	<input type="checkbox"/> All	<input checked="" type="checkbox"/> Portion	of the	<input checked="" type="checkbox"/> Water system(s) under CCN No.:	13203
<input type="checkbox"/> Acquisition				<input checked="" type="checkbox"/> Sewer system(s) under CCN No.:	21065
<input type="checkbox"/> Lease/Rental					

<input checked="" type="checkbox"/> Transfer of	<input type="checkbox"/> All	<input checked="" type="checkbox"/> Portion	of the	<input checked="" type="checkbox"/> Certificated water service area – CCN No.:	13203
				<input checked="" type="checkbox"/> Certificated sewer service area – CCN No.:	21065

If only a portion of a system or certificated service area is affected by this transaction, please specify the areas or subdivision involved:

See Attachment 1.

and to:

<input checked="" type="checkbox"/> Obtain a CCN for the transferee (purchaser) – indicate if purchaser will take the seller's CCN	
<input type="checkbox"/> Amend the transferee's CCN No.:	Issue new water and sewer CCNs for MCMUD 126 and
<input type="checkbox"/> Merge or consolidate public utilities	cancel Aqua Texas' water and sewer CCNs in the transferred
<input checked="" type="checkbox"/> Cancel CCN of the transferor (seller)	service areas only.

2. Proposed effective date of this transaction: January 1, 2016
(Must be at least 120 days after proper notice is provided)

Part B – Current Service Provider or Seller Information

Questions 3 through 5 apply to the transferor (current service provider or seller)

3. For the current CCN holder or service provider please indicate:

A. Name: Aqua Texas, Inc. d/b/a Aqua Texas
(Individual, Corporation or Other Legal Entity)

who is a(n):of Individual Corporation WSC HOA or POA Other

B. Utility Name (if different than above): Not applicable.
Address: 1106 Clayton Ln., Ste. 400W, Austin, TX 78723 Telephone: (AC) (512) 990-4400

C. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

Name: Geoffrey P. Kirshbaum Title: Attorney
Address: 810 West 10th St., Austin, TX 78701 Telephone: (AC) (512) 474-9100

Fax: (512) 474-9888

Email: gkirshbaum@terrilwaldrop.com

4. About the last rate increase for the system or facilities being transferred: **Not applicable.**

A. What was the effective date of the last rate increase? []

B. Was notice of this increase provided to the Public Utility Commission of Texas (commission or PUC) or a predecessor regulatory authority?

[] No [] Yes- Application/Docket Number: [] Date []

5. Please provide a list of all customers affected by this transaction who have deposits held by the transferor or seller utility, if any, and include the following information (attach additional sheets if necessary):

Name and Address of Utility Customer	Date of Deposit	Amount of Deposit	Amount of Unpaid Interest on Deposit
Not applicable. The Application agreement does not contemplate the transfer of any Aqua Texas customers to MCMUD 126.			

Part C – Purchaser or Transferee Information

Questions 6 through 16 refer to the transferee or purchaser.

6. For the person or entity acquiring the facilities and/or CCN:

Applicant: Montgomery County Municipal Utility District 126 (Individual, Corporation, or Other Legal Entity)

Utility Name: Not applicable. (If different than above)

Utility Address: 1300 Post Oak Blvd, Ste. 1400, Houston, TX 77056-3078

Fax: (713) 623-6143 Email: [] Telephone (AC): (713) 623-4531

CCN Numbers held prior to the filing of this application: Not applicable.

7. Check the appropriate box and provide information regarding the legal status of the transferee applicant:

- Individual
- Home or Property Owners Association
- Partnership; attach copy of partnership agreement
- Corporation; provide charter number as recorded with the Office of the Secretary of State for Texas: []
- Non-profit, member owned, member-controlled Cooperative Corporation (Article 1434(a) Water Sewer Service Corporation); provide charter number:

<input type="checkbox"/>	Municipally-owned utility
<input checked="" type="checkbox"/>	District (MUD, SUD, WCID, etc.)
<input type="checkbox"/>	County
<input type="checkbox"/>	Other (please explain): <input type="text"/>

8. If the applicant is an *Individual* or sole proprietorship, provide the following information. If not, skip to the next question.

Name:	Not applicable.		Email:	
Address:				
Telephone (AC):		Fax (AC):		

9. If the applicant is other than an *Individual*, provide the following information regarding the officers or partners of the legal entity applying for the transfer. You must complete either question 8 or question 9, whichever applies to the transferee applicant.

•Name:	Please see Attachment 2 at Page 49.		Telephone (AC):	
Address:				
Position:		Ownership % (if applicable):	0.00%	

•Name:		Telephone (AC):		
Address:				
Position:		Ownership % (if applicable):	0.00%	

•Name:		Telephone (AC):		
Address:				
Position:		Ownership % (if applicable):	0.00%	

•Name:		Telephone (AC):		
Address:				
Position:		Ownership % (if applicable):	0.00%	

•Name:		Telephone (AC):		
Address:				
Position:		Ownership % (if applicable):	0.00%	

•Name:		Telephone (AC):		
Address:				
Position:		Ownership % (if applicable):	0.00%	

- Attach additional sheet(s) if necessary -

Important: • If the applicant is a for-profit corporation, please provide a copy of the corporation's "Certification of Account Status" from the State Comptroller Office. This "Certification of Account Status" can be obtained from: **Not applicable.**

Texas Comptroller of Public Accounts

P. O. Box 13528, Capitol Station

Austin, Texas 78711

1-800-252-5555

- If the applicant is an Article 1434a water supply or sewer service corporation or other non-profit corporation, please provide a copy of the Articles of Incorporation and By-Laws.

10. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

Name:	John H. Eichelberger III	Title:	Attorney
Address:	1300 Post Oak Blvd, Ste 1400, Houston, TX 77056	Telephone (AC):	(713) 623-4531
Fax #	(713) 623-6143	Email	jeichelberger@sphllp.com
Relationship to the applicant:	Attorney for Montgomery County MUD 126		

11. Please respond to each of the following questions. Attach additional sheets if necessary.

- A. Describe the experience and qualifications of the applicant to provide adequate utility service to the requested area

Montgomery County Municipal Utility District No. 126 ("MCMUD 126") is a special law district and political subdivision of the State of Texas. MCMUD 126 already serves water and sewer customers within the MCMUD 126 boundaries. Generally, MCMUD 126 does not require a CCN to provide water or sewer retail public utility service. MCMUD 126 has ad valorem taxing authority and original ratemaking jurisdiction within the MCMUD 126 boundaries. Therefore, MCMUD 126 has the financial ability to pay for all necessary repairs and improvements to water and sewer facilities within its boundaries, including within transferred portion of Aqua Texas' water and sewer CCN contemplated by the Application agreement (although no Aqua Texas facility transfers are contemplated). MCMUD 126 relies on experienced and licensed operators through a contract with Municipal Operations & Consulting, Inc. to ensure continuous and adequate service is provided within MCMUD 126. MCMUD 126 also has wholesale water and sewer service contracts in place with City of Conroe. MCMUD 126 will continue to rely upon these contracts for retail service within the CCN areas proposed for transfer from Aqua Texas.

- B. Has the applicant acquiring the CCN or facilities or an affiliated interest of the applicant been under enforcement action by the PUC, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG) or the Environmental Protection Agency (EPA) in the past for noncompliance with rules, orders or State Statutes? Yes No

- C. Describe the source and availability of funds required to make the planned or required improvements, if any, to meet minimum requirements of the TCEQ and PUC and ensure continuous and adequate service.

Not applicable.

D. Describe the anticipated impact of this transaction on the quality of utility service and explain any anticipated changes in the quality of service.

Not applicable. The agreement between MCMUD 126 and Aqua Texas does not contemplate a transfer of any facilities. See Attachment 3.

E. How will the transaction serve the public interest?

This Application agreement transaction serves the public interest because it will facilitate MCMUD 126's ability to serve water and sewer customers throughout its District boundaries where there is existing need.

12. Please describe the nature of the proposed transaction:

MCMUD 126 and Aqua Texas have agreed to designate certain Aqua Texas water and sewer CCN areas within the boundaries of MCMUD 126 as service areas certificated to MCMUD 126. In exchange, MCMUD 126 will provide Aqua Texas with agreed upon compensation as specified in the Application agreement filed in PUC Docket No. 45656 on February 24, 2016.

13. If the transferee applicant is an Investor Owned Utility (IOU) and will be under the rate jurisdiction of the PUC, please provide the following information. Water supply or sewer service corporations and political subdivisions of the state should mark this section N/A:

Not applicable.

A.

- Total Purchase Price:
- Total Original Cost (as recorded on books of seller or merging entity):
- Accumulated Depreciation as of the proposed effective date of the transaction:
- Contributions in Aid of Construction:
 - Specific surcharges approved by TCEQ or PUC:
 - Revenues from explicit customer agreements:

- Developer Contributions (please explain):

- Other Contributions (please explain):

Total Contributions in Aid of Construction

• Net Book Value:

- If the Original Cost or any of the above items has been established in a rate case proceeding by the PUC, the TWC or the TCEQ, please provide the Application/Docket Number and date:

Application/Docket Number: Date:

- If the applicant is not under the rate jurisdiction of the TCEQ, only the purchase price and information related to Contributions in Aid of Construction is required.

Please provide any other information concerning the nature of the transaction you believe should be given consideration if not explained elsewhere in the application.

The agreed upon transaction strictly involves a transfer/sale of certain water and sewer CCN areas for compensation from Aqua Texas to MCMUD 126. No customers will be transferred as a result of this Application. Aqua Texas and MCMUD 126 contend the CCN service area designations and transfers agreed upon in Application agreement filed in PUC Docket No. 45656 on February 24, 2016 are permitted by TWC §13.248 and should be enforced by the Commission since MCMUD 126 is already legally authorized to provide retail public utility service without a CCN. However, Commission Staff informed Aqua Texas and MCMUD 126 that their Application must be processed as a CCN sale/transfer under TWC §13.251 because MCMUD 126 does not currently possess its own water or sewer CCN. TWC §13.301 does not apply to this transaction since no sale of facilities is contemplated by the Application agreement, but the Applicants are amending the Application to seek authorization for the CCN sale/transfer contemplated by their agreement under TWC §13.251. Commission Staff instructed the Applicants to complete this form as applicable to seek authorization for the agreed upon CCN transfers under TWC §13.251. The Applicants are attempting to comply with Commission Staff's directive in good faith and request the ultimate relief sought (i.e., partial CCN sale/transfers to MCMUD 126) under TWC § 13.251 even though Applicants contend § 13.248 is also an appropriate statutory vehicle.

- C. Complete the following proposed entries listed below as shown in books of purchasing (or surviving) company. Additional entries may be made; the following are suggested only, and not intended to pose descriptive limitations.

Utility Plant in Service:	Not applicable.
Plant Acquisition Adjustment:	
Extraordinary Loss on Purchase:	
Accumulated Depreciation of Plant:	
Cash:	
Notes Payable:	
Mortgage Payable:	
Others (please list):	<input type="text"/>

As the purchaser, I understand that it is **my responsibility** in any future rate proceeding to provide written evidence and support for the original cost and installation date of all facilities used and useful for providing utility service.

Purchaser's Initials: Date:

14. Please indicate the proposed effect of this transaction on the rates to be charged to the affected customers: Not applicable.

All the customers will be charged the same rates as they were charged before the transaction.

Some All customers will be charged different rates than they were charged before the transaction.

If rates are changing, please explain:

Not applicable.

Applicant is an IOU and intends to file with the commission or municipal regulatory authority an application to change rates of some/all of its customers as a result of this transaction. If so, please explain:

Not applicable.

Other. Please explain:

Not applicable.

15. List all neighboring water and /or sewer utilities, cities, and political subdivisions providing the same service within two (2) miles of area affected by this proposed transaction. This information should be available from the water utility database (WUD) or Applicant's licensed water operator.

See Attachment 4. Applicants respectfully request that Commission staff specifically identify any additional entities for which notice is requested if the proposed notice is otherwise approved.

16. Financial, Managerial and Technical information for the acquiring entity.

Waiver of production requested except for documents included in Attachment 2.

Part F – TCEQ Public Water or Sewer System Information

Please answer questions 17 through 22 on a different sheet for each physically Distinct system being transferred or acquired.

Not applicable.

17. A. For Water Systems. TCEQ Public Water System Identification Number:

Date of last inspection:

B. For Wastewater Systems:

-TCEQ Discharge Permit Number: W Q -
 -Name of Permittee:
 -Date of application to transfer Discharge Permit submitted:
 -Date of application to transfer Discharge Permit approved by TCEQ:

18. A. Are any improvements required to meet TCEQ or PUC standards? Yes No. If yes, please explain:

B. Is there a moratorium on new connections? Yes No. If yes, please explain:

C. Provide details of each required major capital improvement to correct the deficiencies and meet the TCEQ or PUC standards (attach additional sheets if necessary):

Description of the Required Improvement	Schedule to Complete	Estimated Cost

19. Does the system being transferred operate within the city limits of a municipality or within district boundaries? Yes No

If yes, indicate the number of customers within the city limits or district boundaries:

Water Sewer

Attach copy of franchise agreement or consent letter from the city or district.

20. Do you currently purchase water or sewer treatment capacity from another source? Yes No
 Water Sewer Purchased on a Regular Seasonal Emergency Basis

• Source: % of total supply:

21. List the number of existing connections to be effected by this transaction.

Water			Sewer		
<input type="text"/>	-Non Metered	<input type="text"/>	-2"meter	<input type="text"/>	-Residential Connection
<input type="text"/>	-5/8" or 3/4" meter	<input type="text"/>	-3" meter	<input type="text"/>	-Commercial Connection
<input type="text"/>	-1" meter	<input type="text"/>	-4" meter	<input type="text"/>	-Industrial Connection
<input type="text"/>	-1 1/2" meter	<input type="text"/>	-Other	<input type="text"/>	-Other
Total Water Connections:			<input type="text"/>	Total Sewer Connections	

22. Has the system reached 85% of its capacity based on TCEQ's minimum requirements? Yes No
 If yes, please explain what steps are being taken to address the capacity issues:

23. List the name, class, and license number of the operator(s) that will be responsible for the system:

Montgomery County Municipal Utility District No. 126 relies on a contract with Municipal Operations & Consulting, Inc. for water and sewer system operations within the District boundaries. MCMUD 126 plans to continue that practice within the CCN areas transferred from Aqua Texas. The District is located entirely within the city limits of the City of Conroe. Pursuant to the Utility Services and Development Agreement between MCMUD 126 and the City of Conroe, the City has the right to assume operations of the potable water and sanitary sewer systems of MCMUD 126. No representation is made herein as to if or when this may occur.

Municipal Operations and Consulting, Inc.; Water Registration No. : WC0000064; Wastewater Registration No. : OC0000023. Please see list of operators at Attachment 5.

24. Attach the following maps with each copy of the application:

- a. One small scale map clearly showing affected service area with enough detail to accurately locate the area if the application is for the transfer of all or a portion of a CCN.
- b. One large scale map showing the proposed service area boundaries being sold, transferred, or merged and, if available, the existing and proposed facilities. Color coding should be used to differentiate existing from proposed facilities. Facilities and service area boundaries should be shown with such exactness that they can be located on the ground. If transferring area not currently in a CCN or a portion of an existing CCN area please attach the following hard copy maps with each copy of the application:
 1. A general location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county.
 2. A map showing only the proposed area by:
 - i. metes and bounds survey certified by a licensed state or registered professional land surveyor; or
 - ii. projectable digital data with metadata (proposed areas should be in a single record and clearly labeled, data disk should be included); or
 - iii. following verifiable natural and man-made landmarks, or
 - iv. a copy of recorded plat map with metes and bounds.
 3. A written description of the proposed service area.

Part G – Oaths and Notices


OATH FOR SELLER OR FORMER SERVICE PROVIDER

STATE OF Texas

COUNTY OF Travis

I, Robert L. Laughman, being duly sworn, file this application for sale, lease, rental or merger or consolidation as President - Aqua Texas, Inc. (*Indicate relationship to applicant*) that is, owner, member of partnership, title as officer of corporation, or other authorized representative of applicant); that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have provided to the purchaser or transferee a written disclosure statement about any contributed property as required under Section 13.301(j) and copies of any outstanding Orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas, or Attorney General and have also complied with the notice requirements in Section 13.301(k) of the Texas Water Code.

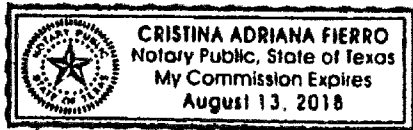


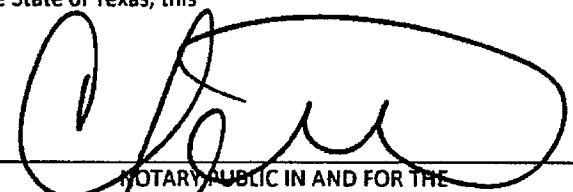
AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this day 28th of June, 20 16.

SEAL





NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS
CRISTINA FIERRO
PRINT OR TYPE NAME OF NOTARY
MY COMMISSION EXPIRES 08/13/2018

One copy of this page must be submitted for each utility involved in this transaction.

OATH FOR PURCHASER OR ACQUIRING ENTITY

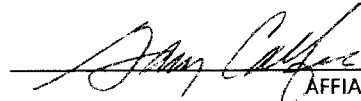
STATE OF Texas

COUNTY OF Montgomery

I, Gary Calfee, being duly sworn, file this application for

sale, lease, rental or merger or consolidation as President, Board of Directors, Montgomery County Municipal Utility District No 126 (*indicate relationship to applicant*) that is, owner, member of partnership, title as officer of corporation, or other authorized representative of applicant); that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I am also authorized and do agree to be bound by and comply with any outstanding orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.



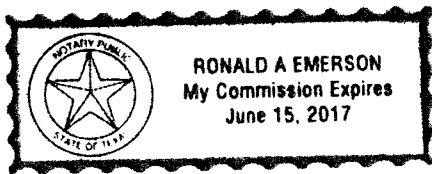
AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

Applicant represents that all other parties to this transaction have been furnished copies of this completed application.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this day 24 of June, 20 16.

SEAL





NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

Ronald A. Emerson

PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES

June 15 2017

One copy of this page must be submitted for each utility involved in this transaction.

Notice to Current Customers, Neighboring Systems, Landowner and Cities

Aqua Texas, Inc. 'S NOTICE OF INTENT TO TRANSFER A PORTION OF ITS WATER AND
(Seller's or Transferor's Name) SEWER CCN TO

Montgomery County MUD 126 AND FOR Montgomery County MUD 126
(Purchaser's or Transferee's Name) Purchaser's or Transferee's Name)

TO OBTAIN A CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN) IN
Montgomery COUNTY, TEXAS

To: _____ Date Notice Mailed _____, 20 ____
(Name of Customer, Neighboring System, Landowner or City)

(Address)

City State Zip

Aqua Texas, Inc. 1106 Clayton Lane, Suite 400W Austin, Texas 78723
Sellers or Transferors' Name Address City/State/Zip Code

has submitted an application with the Public Utility Commission of Texas to transfer a portion of its water or sewer CCN area in Montgomery County, Texas

Montgomery County MUD 126 1300 Post Oak Blvd., Ste. 1400 Houston, Texas 77056-3078
Purchasers or Transferee's Name Address City/State/Zip Code

The transferee has also requested to obtain/amend a CCN in this application. The sale is scheduled to take place as approved by the Commission (Texas Water Code §13.301). The transaction and the proposed service area is located as follows:

The proposed utility service area is located approximately 6.3 miles northwest of downtown Conroe, TX, and is generally bounded on the north by League Line Rd; on the east by Longmire Rd; on the south by Longmire Way; and on the west by Lake Conroe.

Transfer area is approximately 173.63 acres. Decertify area is approximately 6.42 acres.

The total area being requested includes approximately 0 Aqua Texas customers

This transaction will have the following effect on the current customer's rates and services:

Not applicable.

Affected persons may file written protests and/or request a public hearing within 30 days of this notice.

To request a hearing, you must:

- (1) state your name, mailing address and daytime telephone number;
- (2) state the applicant's name, application number or another recognizable reference to this application;
- (3) include the statement "I/we request a public hearing";
- (4) write a brief description of how you, the persons you represent, or the public interest would be adversely affected by the proposed transaction and transfer of the CCN; and
- (5) state your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Only those persons who submit a written request to be notified of a hearing will receive notice if a hearing is scheduled. The Commission will issue the CCN requested in the referenced application unless a hearing is scheduled to consider the transaction. If no

protests or requests for hearing are filed during the comment period, the Commission may issue the CCN 30 days after publication of this notice.

Persons who wish to protest or request a hearing on this application should write the:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

**Se desea informacion en Espanol, puede llamar al
1-888-782-8477**

Robert L. Laughman

Utility Representative

Aqua Texas, Inc.

Utility Name

ATTACHMENTS:

Attachment 1 – Maps

Attachment 2 – MCMUD 126 2015 Annual Report

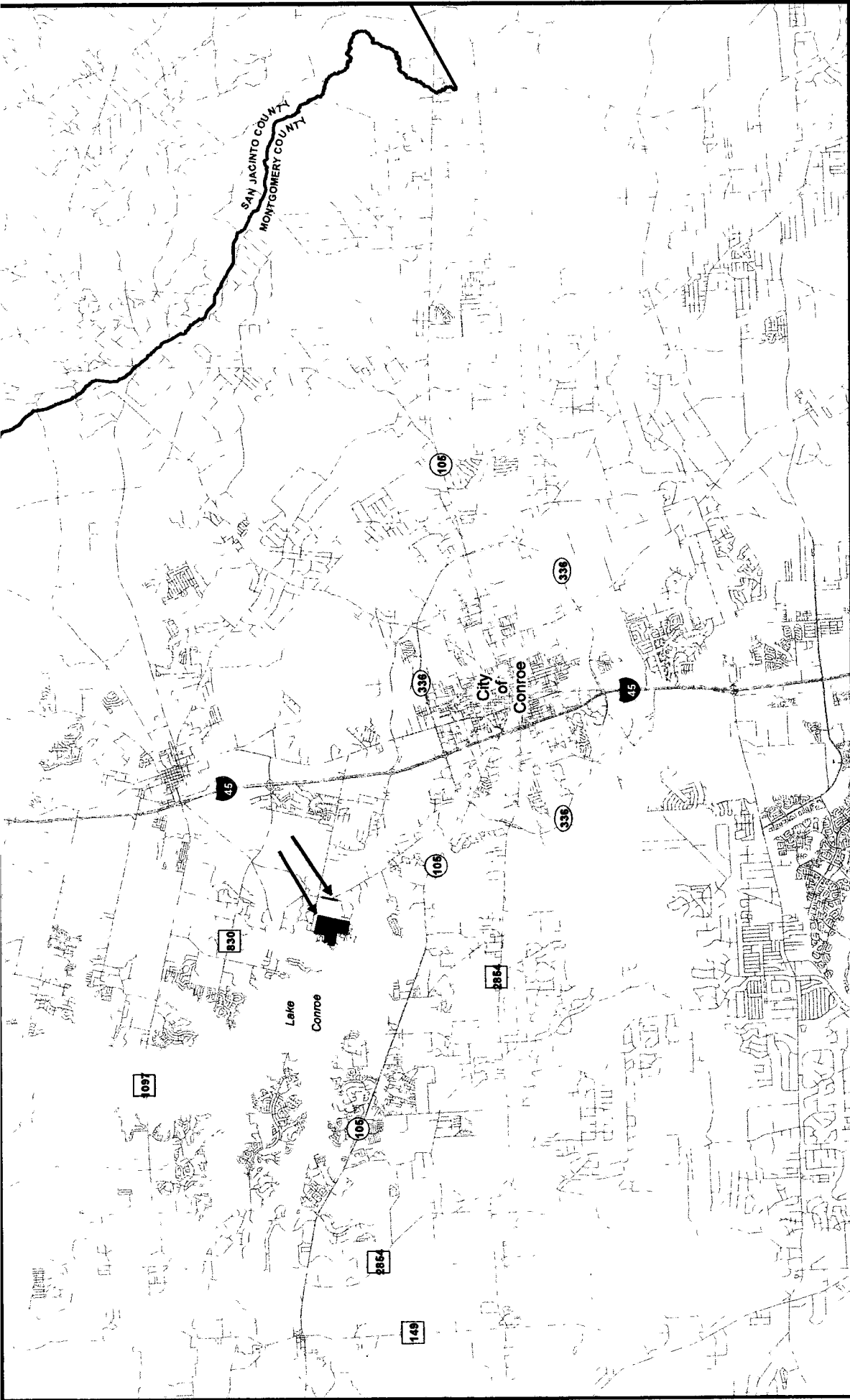
Attachment 3 – Agreement between Aqua Texas and MCMUD 126

Attachment 4 – List of Neighboring Entities, Systems, and Districts

Attachment 5 – List of Municipal Operations & Consulting, Inc.'s Licensed Operators

ATTACHMENT

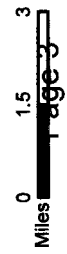
1



General Location Map

Aqua Texas, Inc. / Montgomery County MUD 126
 13.248 Agreement to Transfer a Portion of CCN 13203 and 21065 from Aqua Texas, Inc. to Montgomery County MUD 126
 and Petition to Decertify Other Portions of CCN 13203 and 21065
 in Montgomery County

█ Proposed CCN Areas



Map by: S. Burt
 Date created: January 14, 2016
 Base map: StratMap Transportation
 Project: MCMUD126 general location map.mxd



Source: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, Aero
Gaming, IGN, IGP, swisstopo, and the GIS User Community

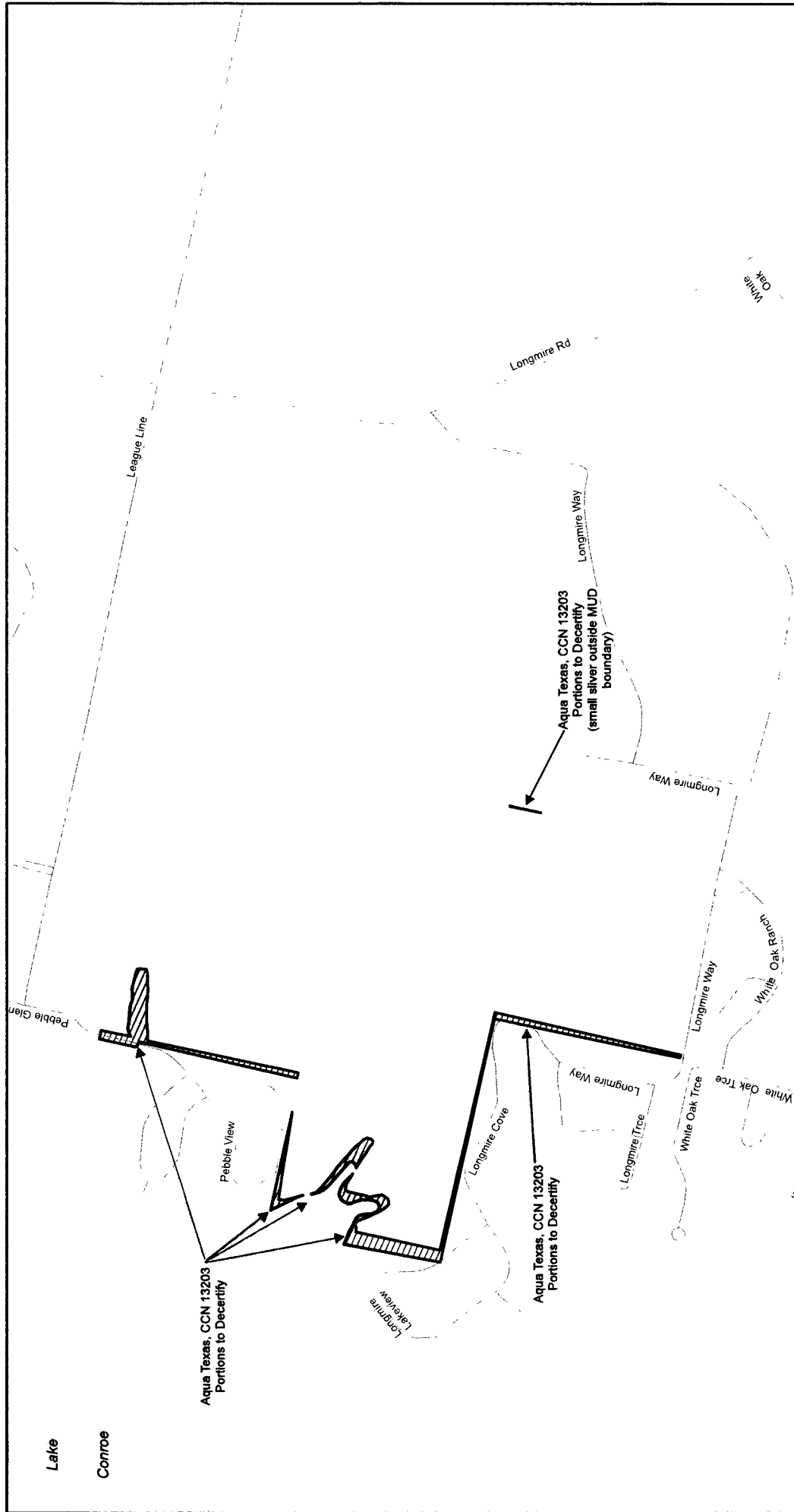


Montgomery County MUD 126

Map by: S. Burt
Date created: January 7, 2016
Base map: ESRI World Imagery
Project: MCMUD126 Location.mxd



MCMUD 126 boundaries based on metes & bounds descriptions. Positioned using MCAD Parcels GIS data and Imagery.

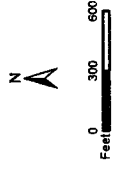


Lake
Conroe

Aqua Texas, CCN 13203
Portions to Decertify


Aqua Texas, CCN 13203
Portions to Decertify

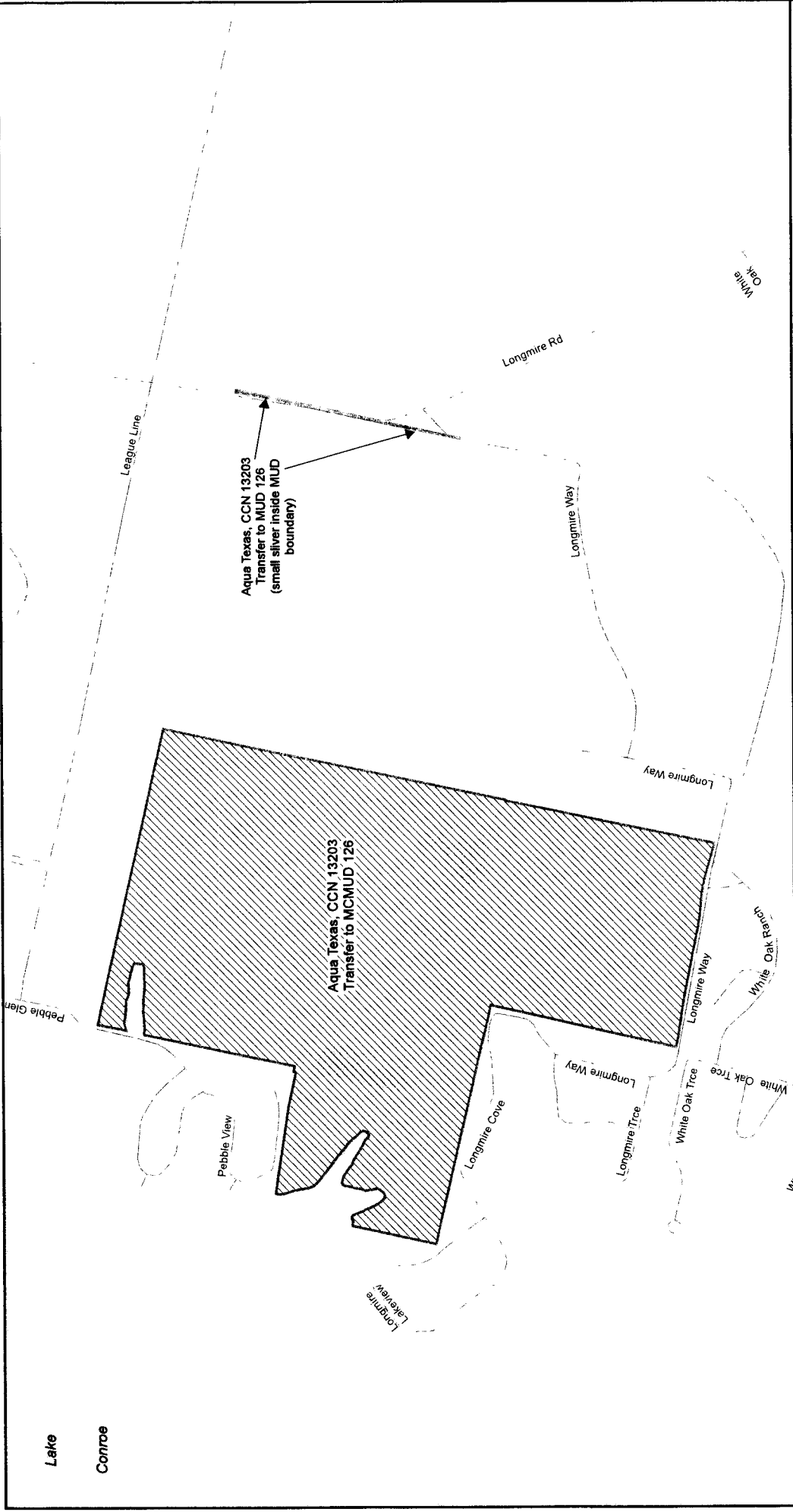
Aqua Texas, CCN 13203
Portions to Decertify
(small silver outside MUD
boundary)



Map by: S. Burt
Date created: February 11, 2016
Base map: StreetMap Transportation
Project: 13203 Decert Areas Only-Large Scale.mxd

Aqua Texas, Inc.
Petition to Decertify Portions of CCN 13203
in Montgomery County

 CCN 13203 Decertification - 6.30 acres

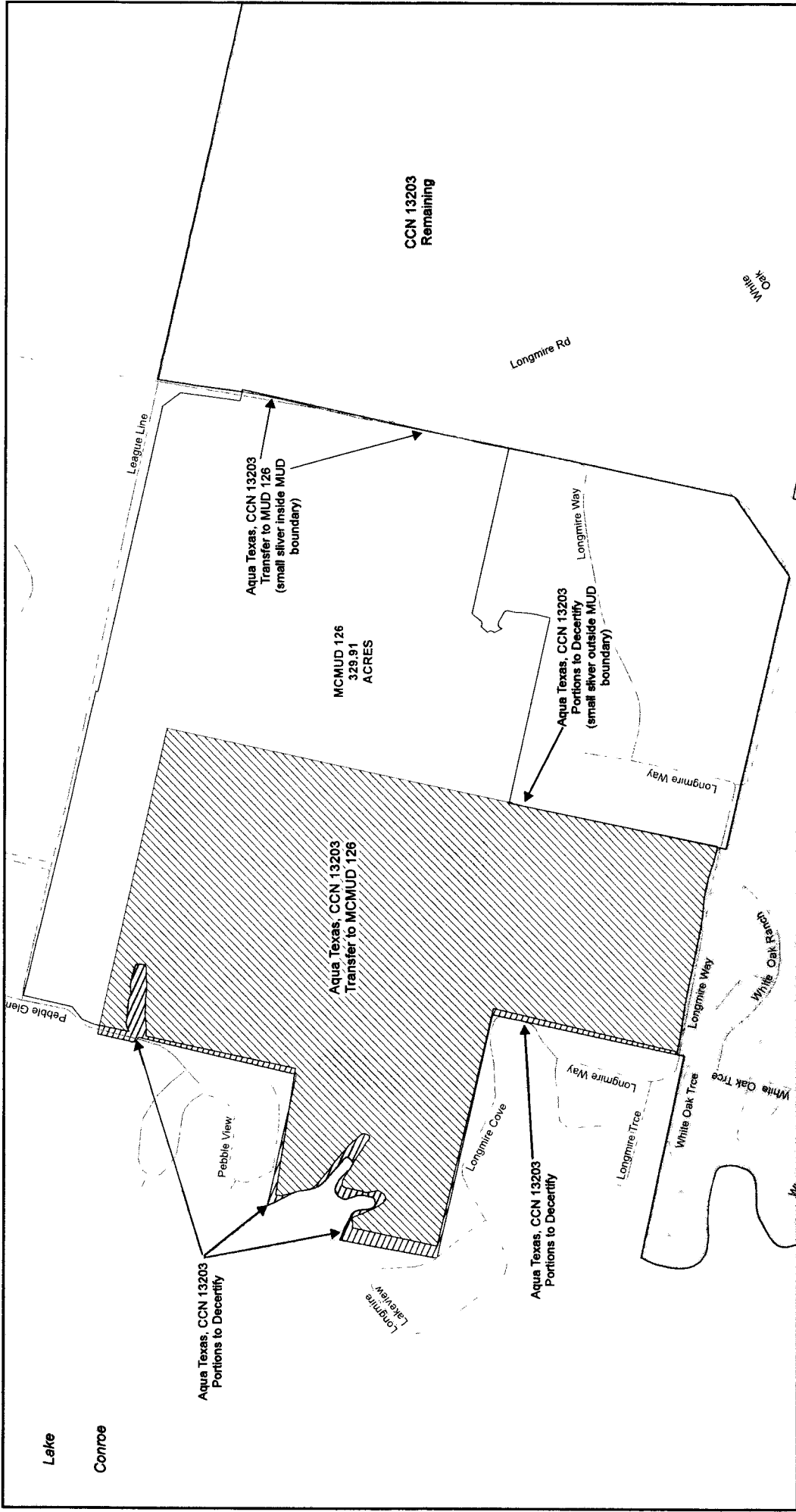


Transfer of CCN 13203 to MCMUD 126 - 174.18 acres

13.248 Agreement to Transfer a Portion of CCN 13203 from Aqua Texas, Inc. to Montgomery County MUD 126 in Montgomery County



Map by: S. Burt
 Date created: February 11, 2016
 Base map: ShredMap Transportation
 Project: 13203 Transfer Area Only-Large Scale.mxd



Lake

Conroe

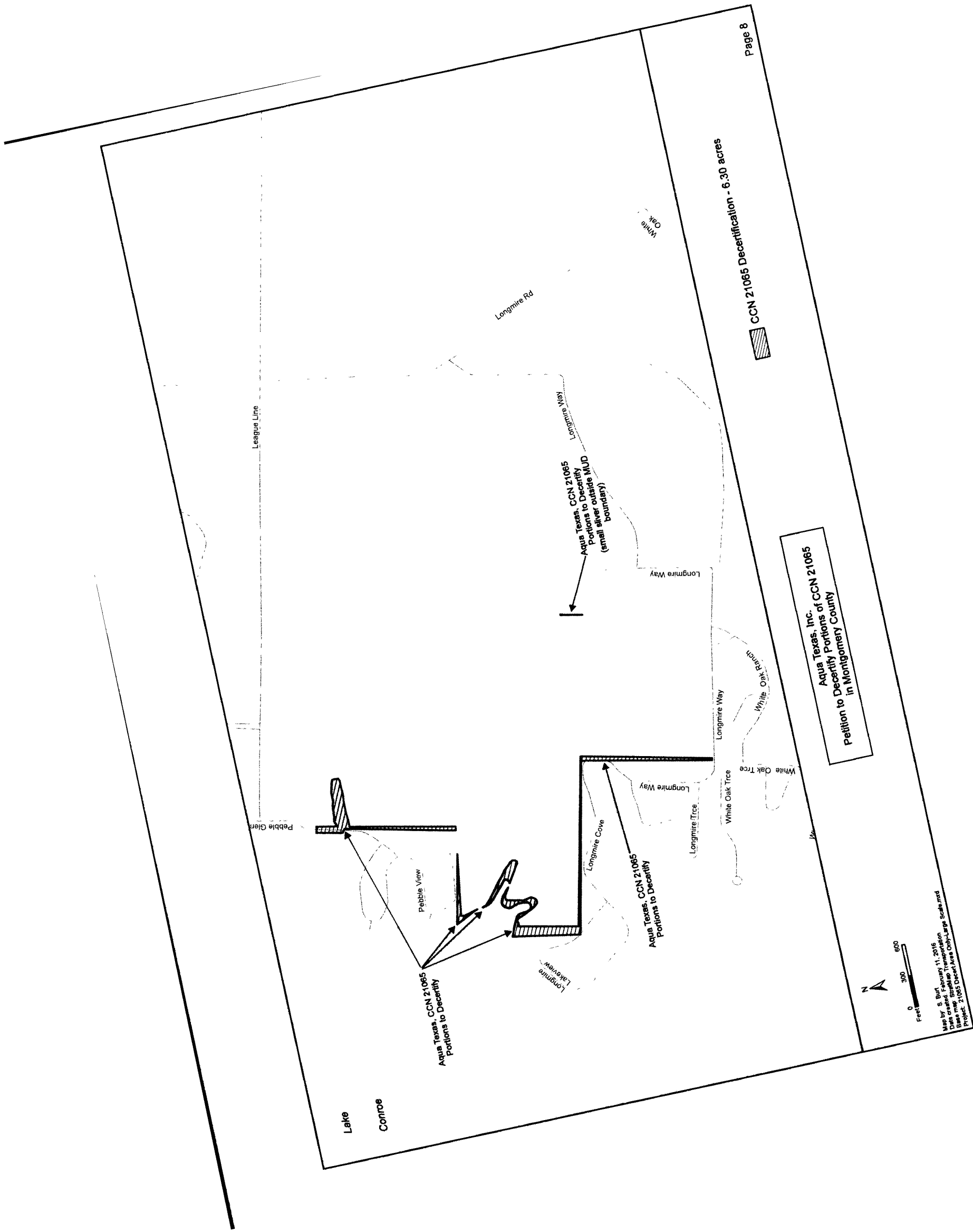


0 300 600
Feet

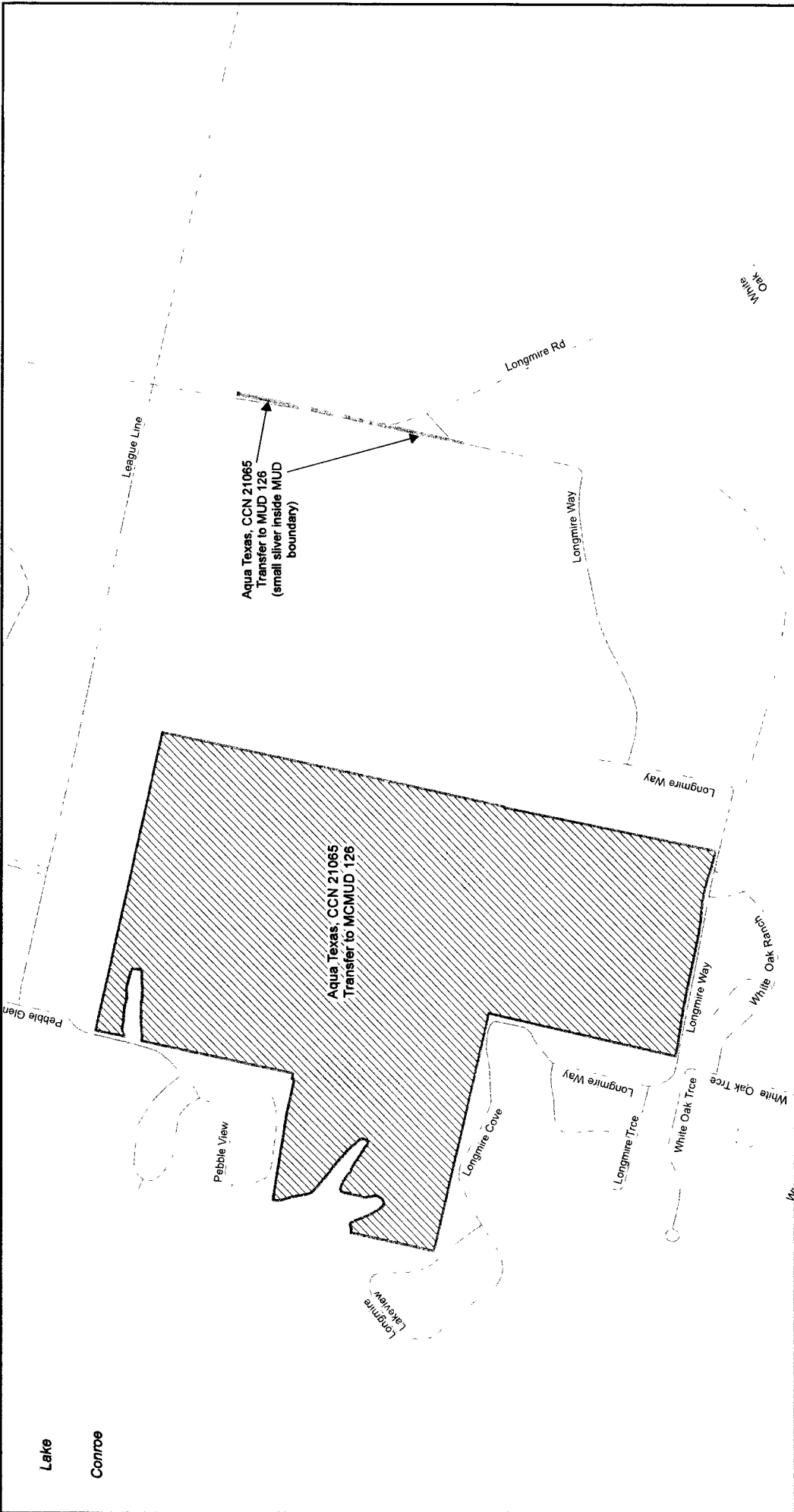
Map by S Burt
Date created: February 11, 2016
Map scale: 1" = 300'
Project: Aqua Texas, MCMUD 126 Large Scale Watershed

Aqua Texas, Inc. / Montgomery County MUD 126
13.248 Agreement to Transfer a Portion of CCN 13203 from Aqua Texas, Inc. to Montgomery County MUD 126
and Petition to Decertify Other Portions of CCN 13203
in Montgomery County

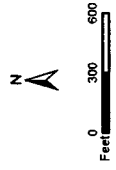
- Montgomery County MUD 126 Boundary - 329.91 acres
- Transfer of CCN 13203 to MCMUD 126 - 174.18 acres
- CCN 13203 Decertification - 6.30 acres
- CCN 13203 Following Transfer / Decertification



Map by S. Burt
 Date created: February 11, 2016
 Data source: Statewide Transportation
 Base map: Statewide Area Only-Large Scale.mxd
 Project: 21065 Decert



Lake
Course

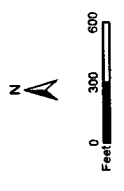
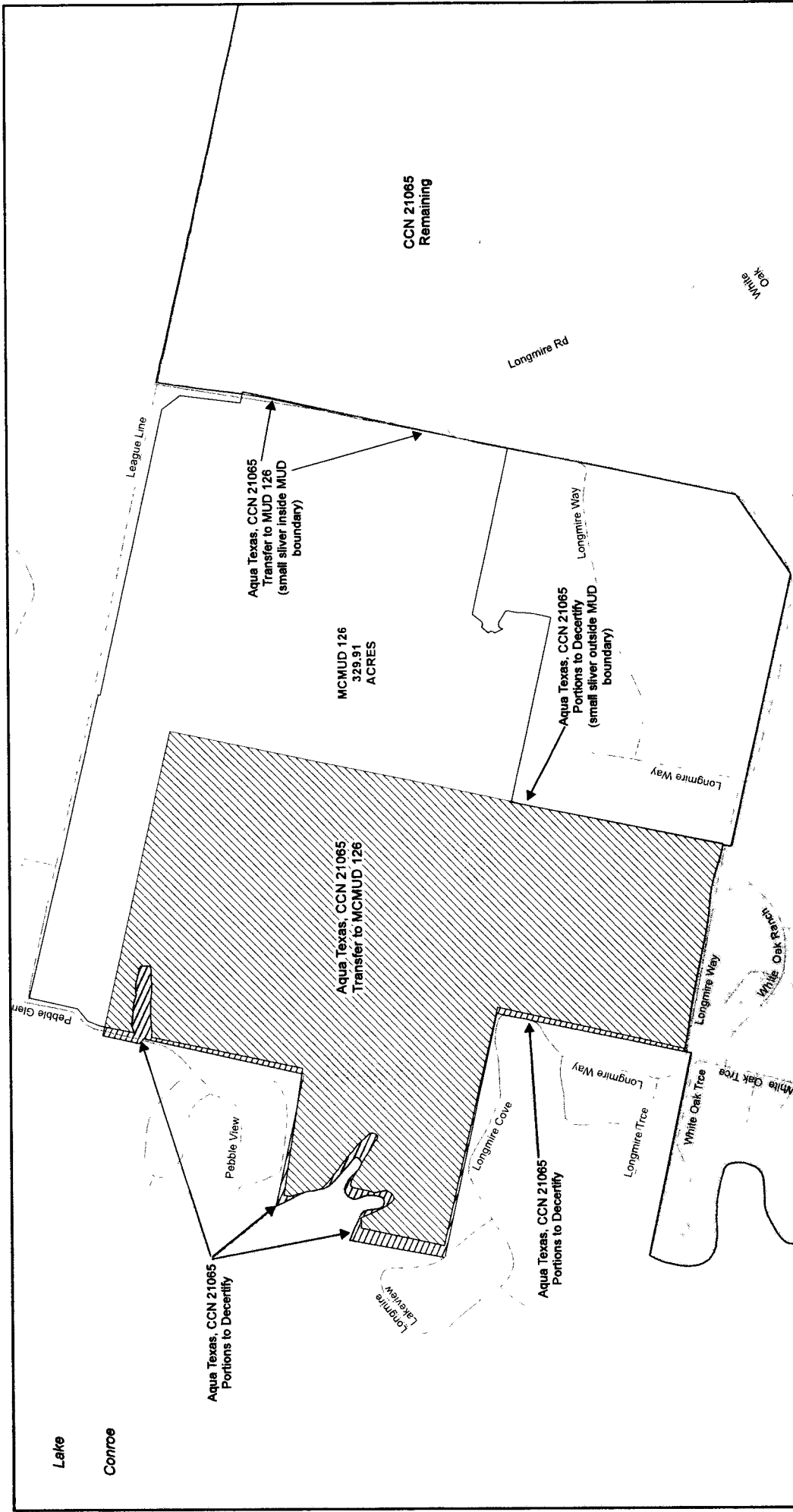


Map by S. Burt
 Date created: January 11, 2016
 File: 21065 Transfer Area Only-Large Scale.mxd
 Project: 21065 Transfer Area Only-Large Scale.mxd

**Aqua Texas, Inc. / Montgomery County MUD 126
 13.248 Agreement to Transfer a Portion of CCN 21065 from Aqua Texas, Inc. to Montgomery County MUD 126
 in Montgomery County**



Transfer of CCN 21065 to MCMUD 126 - 174.18 acres



Map by: S. Burt
 Date created: February 11, 2016
 Base map: StreetMap Transportation
 Project: Aqua Texas_MCMUD 126 Large Scale Sewer.mxd

13.248 Agreement to Transfer a Portion of CCN 21065 from Aqua Texas, Inc. to Montgomery County MUD 126 and Petition to Decertify Other Portions of CCN 21065 in Montgomery County

- Montgomery County MUD 126 Boundary - 329.91 acres
- Transfer of CCN 21065 to MCMUD 126 - 174.18 acres
- CCN 21065 Decertification - 6.30 acres
- CCN 21065 Following Transfer / Decertification

ATTACHMENT

2

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2015

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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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.

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
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	<u>\$ 185,085</u>
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

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 29,091	\$	\$ 29,091
Receivables:			
Service Accounts	8,050		8,050
Capital Assets (Net of Accumulated Depreciation)		<u>2,537,066</u>	<u>2,537,066</u>
TOTAL ASSETS	<u>\$ 37,141</u>	<u>\$ 2,537,066</u>	<u>\$ 2,574,207</u>
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	<u>1,200</u>		<u>1,200</u>
TOTAL LIABILITIES	<u>\$ 59,628</u>	<u>\$ 2,942,737</u>	<u>\$ 3,002,365</u>
FUND BALANCE (DEFICIT)			
Unassigned	<u>\$ (22,487)</u>	<u>\$ 22,487</u>	<u>\$ -0-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 37,141</u>		
NET POSITION			
Net Investment in Capital Assets		\$ (1,171)	\$ (1,171)
Unrestricted		<u>(426,987)</u>	<u>(426,987)</u>
TOTAL NET POSITION		<u>\$ (428,158)</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 BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JULY 31, 2015**

Total Fund Balance - Governmental Fund	\$ (22,487)
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.</p>	2,537,066
<p>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:</p>	
Due to Developer	(2,942,737)
Total Net Position - Governmental Activities	\$ (428,158)

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>\$ - 0 -</u>	<u>\$ 185,085</u>
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>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (87,908)</u>	<u>\$ (1,171)</u>	<u>\$ (89,079)</u>
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$ 80,000	\$ (80,000)	\$ -0-
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	<u>(14,579)</u>	<u>(324,500)</u>	<u>(339,079)</u>
FUND BALANCE (DEFICIT)/NET POSITION - JULY 31, 2015	<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.	<u>(80,000)</u>
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:

	Years
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