

Todd Chenoweth, Director

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November 4, 2008

The total year 2007 overlapping tax rates on land within the proposed District are shown in the following table:

<u>Taxing Jurisdiction</u>	<u>Tax per \$100 valuation</u>
Montgomery County	\$ 0.4888
Montgomery County Hospital District	0.0777
North Harris Montgomery County College District	0.1144
Willis ISD	1.3060
City of Conroe	0.4250
Proposed Montgomery County MUD No. 126	<u>1.0200</u> ⁽¹⁾
Total tax per \$100 valuation	\$ 3.4289

Notes: (1) Includes debt service tax rates of \$0.85 for utilities, \$0.12 for roads, and \$0.05 for recreational facilities. No maintenance tax was indicated. The total (proposed District tax; and the City tax for water, wastewater and drainage, road, and recreational facilities - if the City annexes the land) would need to be less than the \$1.50 limit indicated in 30 TAC rules.

Based on the proposed District tax rate and the year 2007 overlapping tax rates on land within the proposed District, the project is considered economically feasible.

Water and Wastewater Rates

According to information provided projected City rates are as follows:

Water:

Base charge (up to 3,000 gallons)	\$8.71
Each 1,000 gallons over 3,000 gallons	\$2.16

Wastewater:

Base charge (up to 3,000 gallons)	\$15.73
Each 1,000 gallons over 3,000 gallons	\$ 1.92

Based on the City rates, the estimated monthly fee for 10,000 gallons of water and wastewater would be approximately \$53.00.

Comparative Water District Tax Rates

A debt tax rate of about \$1.02 for the proposed District is comparable to other districts in the area. Based on the requirements of 30 TAC Section 293.59, this project is economically feasible.

November 4, 2008

E. SPECIAL CONSIDERATIONS

1. Annexation

As stated above, the proposed District is in the ETJ of the City. The engineering report indicates that the proposed District is in the process of being annexed by the City.

2. Request for Road Powers

The Petitioners request approval for road powers at the same time as the creation of the proposed District. Pursuant to Texas Water Code Section 54.234, approval of road utility district powers may be requested at the same time as creation. The proposed District has submitted a summary of the estimated cost in the engineering report that was submitted with the application. The proposed roads appear to benefit the proposed District, and financing appears feasible.

3. Request for Recreation Plan Approval

The Petitioners request approval of a recreation plan at the same time as the creation of the proposed District. Pursuant to Texas Water Code Section 49.351(g) and 30 TAC Section 293.11(a)(10), approval of a recreation plan may be requested at the same time as creation. The application material includes a detailed summary of the proposed recreational facility projects, projects' estimated costs, and proposed financing methods for the projects. The proposed District plan to construct recreational facility appears reasonable and feasible.

F. CONCLUSIONS

1. Based on Commission policy, compliance with Commission rules, and review of the engineering report and supporting documents, the proposed District is considered feasible, practicable, would be a benefit to the land within the proposed District, and would be necessary as a means to finance utilities and to provide utility service to future customers.
2. Based on a review of the application and supporting documents, the District's acquisition of Road Powers is considered feasible.
3. Based on a review of the preliminary engineering report; the market study; the proposed District's water, wastewater, drainage, road, and recreational facilities; a combined projected tax rate of \$1.02; the proposed District obtaining a 6.0% bond coupon interest rate; and other supporting data, the proposed District is considered feasible under the feasibility limits prescribed by 30 TAC Section 293.59.
4. The recommendations are made under authority delegated by the Executive Director of the Texas Commission on Environmental Quality.

Todd Chenoweth, Director

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G. RECOMMENDATIONS

1. Grant the petition for creation of Montgomery County Municipal Utility District No. 126.
2. Grant the District's request to acquire Road Powers in accordance with Texas Water Code Section 54.234 and 30 TAC §§ 293.201 and 293.202, subject to the requirements imposed by the Commission and the general laws of the State of Texas relating to the exercise of such powers.
3. The order granting the petition should include the following statements:

"This Order shall in no event be construed as an approval of any proposed agreements or of any particular items in any documents provided in support of the petition for creation, nor as a commitment or requirement of the Commission in the future to approve or disapprove any particular items or agreements in future applications submitted by the District for Commission consideration."

"This Order shall not constitute approval or recognition of the validity of any provision in the City of Comroe creation consent Ordinance No. 1848-08, effective May 22, 2008, and any other ordinance/resolution incorporated therein by reference to the extent that such provisions exceed the authority granted to the City of Comroe by the laws of the State of Texas."

4. Appoint the following to serve as temporary directors until permanent directors are elected and qualified:

Irving A. Wolf
Adam H. Soffar

Gary Calfee
Donald E. Robinowitz

Robert L. Tompkins

H. ADDITIONAL INFORMATION

The petitioners' professional representatives are:

Attorney: Mr. Abraham I. Rubinsky - Schwartz, Page, & Harding LLP

Engineer: Mr. Hasan Syed, P.E. - Edminster, Hinshaw, Russ & Assoc.

Market Analyst: Mr. Toby Ware - Metrostudy



Greg Charles
Districts Review Team

EXHIBIT "C"

ORDER CANVASSING ELECTION RESULTS

2008-042981

Exhibit C

CERTIFICATE FOR
ORDER CANVASSING RETURNS AND DECLARING
RESULTS OF CONFIRMATION AND DIRECTOR ELECTION
AND BOND AND MAINTENANCE TAX ELECTION

I, the undersigned Secretary of the Board of Directors (the "Board") of Montgomery County Municipal Utility District No. 126 (the "District"), hereby certify as follows:

1. The Board convened in special session, open to the public, on May 14, 2009, at 1300 Post Oak Boulevard, Suite 1400, Houston, Harris County, Texas and the roll was called of the members of the Board, to-wit:

Gary Calfee, President
Donald E. Robinowitz, Vice-President
Adam H. Soffar, Secretary
Irving A. Wolf, Assistant Secretary
Robert L. Tompkins, Assistant Secretary

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All of the members of the Board were present, thus constituting a quorum. Whereupon, among other business, the following was transacted at such meeting: A written

ORDER CANVASSING RETURNS AND DECLARING
RESULTS OF CONFIRMATION AND DIRECTOR ELECTION
AND BOND AND MAINTENANCE TAX ELECTION

was duly introduced for the consideration of the Board. It was then duly moved and seconded that such Order be adopted, and, after due discussion, such motion, carrying with it the adoption of such Rules, prevailed and carried by the following vote:

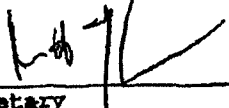
AYES: 5

NOES: 0

2. A true, full and correct copy of the aforesaid Order adopted at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; such Order has been duly recorded in the Board's minutes of such meeting; the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of the Board as indicated therein; each of the officers and members of the Board was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of such meeting, and that such Order would be introduced and considered for adoption at such meeting; and such meeting was open to the public, and public notice of the time, place and purpose of such meeting was given, all as required by Chapter 551, Texas Government Code and Section 49.063, Texas Water Code, as amended.

Return To: KDE
Schwartz, Page & Harding, L.L.P.
1300 Post Oak Blvd., Ste. 1400
Houston, Texas 77056

SIGNED AND SEALED this 14th day of May, 2009.


Secretary
Board of Directors



MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

ORDER CANVASSING RETURNS AND DECLARING
RESULTS OF CONFIRMATION AND DIRECTOR ELECTION
AND BOND AND MAINTENANCE TAX ELECTION

WHEREAS, there was held in Montgomery County Municipal Utility District No. 126, (the "District"), on the 9th day of May, 2009, an election for the purpose of electing five (5) permanent directors for the District and for the further purposes of voting on the following propositions:

PROPOSITION I

SHALL THE CREATION OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126 BE CONFIRMED?

PROPOSITION II

SHALL THE BOARD OF DIRECTORS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126 BE AUTHORIZED TO ISSUE THE BONDS OF SAID DISTRICT IN ONE OR MORE ISSUES OR SERIES IN THE MAXIMUM AGGREGATE ORIGINAL PRINCIPAL AMOUNT OF FORTY-ONE MILLION THREE HUNDRED TWENTY THOUSAND DOLLARS (\$41,320,000) MATURING SERIALLY OR OTHERWISE IN SUCH INSTALLMENTS AS ARE FIXED BY SAID BOARD OVER A PERIOD OR PERIODS NOT EXCEEDING FORTY (40) YEARS FROM THEIR DATE OR DATES, BEARING INTEREST AT ANY RATE OR RATES, AND TO SELL SAID BONDS AT ANY PRICE OR PRICES, PROVIDED THAT THE NET EFFECTIVE INTEREST RATE ON ANY ISSUE OR SERIES OF SAID BONDS SHALL NOT EXCEED THE MAXIMUM LEGAL LIMIT IN EFFECT AT THE TIME OF ISSUANCE OF EACH ISSUE OR SERIES OF SAID BONDS, ALL AS MAY BE DETERMINED BY THE BOARD OF DIRECTORS OF SAID DISTRICT, FOR THE PURPOSE OR PURPOSES OF PURCHASING, CONSTRUCTING, ACQUIRING, OWNING, OPERATING, REPAIRING, IMPROVING, OR EXTENDING A WATERWORKS SYSTEM, A SANITARY SEWER SYSTEM AND A DRAINAGE AND STORM SEWER SYSTEM, INCLUDING, BUT NOT LIMITED TO, ALL ADDITIONS TO SUCH SYSTEMS AND ALL LAND, IMPROVEMENTS, FACILITIES, PLANTS, EQUIPMENT, APPLIANCES, INTERESTS IN PROPERTY AND REGIONAL, REGULATORY OR JOINT USE PARTICIPATION RIGHTS OR CONTRACT RIGHTS NEEDED THEREFOR, AND ADMINISTRATIVE FACILITIES NEEDED IN CONNECTION THEREWITH, AND TO PROVIDE FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SUCH BONDS BY THE LEVY AND COLLECTION ANNUALLY OF A SUFFICIENT TAX UPON ALL TAXABLE PROPERTY WITHIN SAID DISTRICT, ALL AS AUTHORIZED BY THE CONSTITUTION AND LAWS OF THE STATE OF TEXAS?

PROPOSITION III

SHALL THE BOARD OF DIRECTORS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126 BE AUTHORIZED TO ISSUE THE BONDS OF SAID DISTRICT IN ONE OR MORE ISSUES OR SERIES IN THE MAXIMUM AGGREGATE ORIGINAL PRINCIPAL AMOUNT OF FOUR MILLION ONE HUNDRED THOUSAND DOLLARS (\$4,100,000) MATURING SERIALLY OR OTHERWISE IN SUCH INSTALLMENTS AS ARE FIXED BY SAID BOARD OVER A PERIOD OR PERIODS NOT EXCEEDING FORTY (40) YEARS FROM THEIR DATE OR DATES, BEARING INTEREST AT ANY RATE OR RATES, AND TO SELL SAID BONDS AT ANY PRICE OR PRICES, PROVIDED THAT THE NET EFFECTIVE INTEREST RATE ON ANY ISSUE OR ISSUES OF SAID BONDS SHALL NOT EXCEED THE MAXIMUM LEGAL LIMIT IN EFFECT AT THE TIME OF ISSUANCE OF EACH ISSUE OF SAID BONDS, ALL AS MAY BE DETERMINED BY THE BOARD OF DIRECTORS OF SAID DISTRICT, FOR THE PURPOSE OR PURPOSES OF PURCHASING, CONSTRUCTING, ACQUIRING, OWNING, OPERATING, REPAIRING, IMPROVING, OR EXTENDING RECREATIONAL FACILITIES, INCLUDING, BUT NOT LIMITED TO, ALL ADDITIONS TO SUCH FACILITIES AND ALL LAND, IMPROVEMENTS, FACILITIES, EQUIPMENT, APPLIANCES, INTERESTS IN PROPERTY AND CONTRACT RIGHTS NEEDED THEREFOR, AND ADMINISTRATIVE FACILITIES NEEDED IN CONNECTION THEREWITH, AND TO PROVIDE FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SUCH BONDS BY THE LEVY AND COLLECTION ANNUALLY OF A SUFFICIENT TAX UPON ALL TAXABLE PROPERTY WITHIN SAID DISTRICT, ALL AS AUTHORIZED BY THE CONSTITUTION AND LAWS OF THE STATE OF TEXAS?

PROPOSITION IV

SHALL THE BOARD OF DIRECTORS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126 BE AUTHORIZED TO ISSUE THE BONDS OF SAID DISTRICT IN ONE OR MORE ISSUES OR SERIES IN THE MAXIMUM AGGREGATE ORIGINAL PRINCIPAL AMOUNT OF SIX MILLION DOLLARS (\$6,000,000) MATURING SERIALLY OR OTHERWISE IN SUCH INSTALLMENTS AS ARE FIXED BY SAID BOARD OVER A PERIOD OR PERIODS NOT EXCEEDING FORTY (40) YEARS FROM THEIR DATE OR DATES, BEARING INTEREST AT ANY RATE OR RATES, AND TO SELL SAID BONDS AT ANY PRICE OR PRICES, PROVIDED THAT THE NET EFFECTIVE INTEREST RATE ON ANY ISSUE OR SERIES OF SAID BONDS SHALL NOT EXCEED THE MAXIMUM LEGAL LIMIT IN EFFECT AT THE TIME OF ISSUANCE OF EACH ISSUE OR SERIES OF SAID BONDS, ALL AS MAY BE DETERMINED BY THE BOARD OF DIRECTORS OF SAID DISTRICT, FOR THE PURPOSE OR PURPOSES OF PURCHASING, CONSTRUCTING, ACQUIRING, OWNING, OPERATING, REPAIRING, IMPROVING, OR EXTENDING ROAD FACILITIES, INCLUDING, BUT NOT LIMITED TO, ALL ADDITIONS TO SUCH FACILITIES, AND ALL LAND, IMPROVEMENTS, FACILITIES, EQUIPMENT, APPLIANCES, INTERESTS IN PROPERTY AND CONTRACT RIGHTS NEEDED THEREFOR, AND ADMINISTRATIVE FACILITIES NEEDED IN CONNECTION THEREWITH, EXCEPT AS LIMITED BY APPLICABLE GENERAL, SPECIAL OR LOCAL LAWS, OR THE RULES, REGULATIONS OR ORDINANCES OF ANY APPLICABLE CITY, COUNTY OR AGENCY WITH JURISDICTION, AND TO PROVIDE FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID BONDS BY THE LEVY AND COLLECTION ANNUALLY OF A SUFFICIENT TAX UPON ALL TAXABLE PROPERTY WITHIN SAID DISTRICT, ALL AS AUTHORIZED BY THE CONSTITUTION AND LAWS OF THE STATE OF TEXAS?

PROPOSITION V

SHALL THE BOARD OF DIRECTORS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126 BE AUTHORIZED TO ISSUE THE BONDS OF SAID DISTRICT IN ONE OR MORE ISSUES OR SERIES IN THE MAXIMUM AGGREGATE ORIGINAL PRINCIPAL AMOUNT OF FIFTY-ONE MILLION FOUR HUNDRED TWENTY THOUSAND DOLLARS (\$51,420,000) MATURING SERIALLY OR OTHERWISE IN SUCH INSTALLMENTS AS ARE FIXED BY SAID BOARD OVER A PERIOD OR PERIODS NOT EXCEEDING FORTY (40) YEARS FROM THEIR DATE OR DATES, BEARING INTEREST AT ANY RATE OR RATES, AND TO SELL SAID BONDS AT ANY PRICE OR PRICES, PROVIDED THAT THE NET EFFECTIVE INTEREST RATE ON ANY ISSUE OR SERIES OF SAID BONDS SHALL NOT EXCEED THE MAXIMUM LEGAL LIMIT IN EFFECT AT THE TIME OF ISSUANCE OF EACH ISSUE OR SERIES OF SAID BONDS, ALL AS MAY BE DETERMINED BY THE BOARD OF DIRECTORS OF SAID DISTRICT, FOR THE PURPOSE OF REFUNDING BY ANY MEANS NOW OR HEREAFTER AUTHORIZED BY LAW, ALL OR ANY PORTION OF ANY BONDS OR REFUNDING BONDS OF THE DISTRICT PAYABLE IN WHOLE OR IN PART FROM TAXES, WHETHER ON EVEN DATE HERewith, HEREUNDER, OR HEREAFTER AUTHORIZED OR ISSUED BY THE DISTRICT, AND TO PROVIDE FOR THE PAYMENT OF THE PRINCIPAL OF AND THE INTEREST ON SUCH REFUNDING BONDS BY THE LEVY AND COLLECTION OF A SUFFICIENT TAX UPON ALL TAXABLE PROPERTY WITHIN SAID DISTRICT, ALL AS AUTHORIZED BY THE CONSTITUTION AND LAWS OF THE STATE OF TEXAS?

PROPOSITION VI

SHALL THE BOARD OF DIRECTORS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126 BE AUTHORIZED TO ASSESS, LEVY AND COLLECT AN ANNUAL MAINTENANCE TAX NOT TO EXCEED ONE DOLLAR AND FIFTY CENTS (\$1.50) ON EACH \$100 VALUATION OF ALL TAXABLE PROPERTY WITHIN SAID DISTRICT TO SECURE FUNDS FOR MAINTENANCE AND OTHER AUTHORIZED PURPOSES, INCLUDING, BUT NOT LIMITED TO, FUNDS FOR PLANNING, CONSTRUCTING, ACQUIRING, MAINTAINING, REPAIRING AND OPERATING ALL NECESSARY LAND, PLANTS, FACILITIES, IMPROVEMENTS, APPLIANCES AND EQUIPMENT OF SUCH DISTRICT, AND FOR THE PAYMENT OF PROPER SERVICES, ENGINEERING AND LEGAL FEES, AND ORGANIZATION AND ADMINISTRATIVE EXPENSES IN ACCORDANCE WITH THE CONSTITUTION AND LAWS OF THE STATE OF TEXAS?

PROPOSITION VII

SHALL THE BOARD OF DIRECTORS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126 BE AUTHORIZED TO ASSESS, LEVY AND COLLECT AN ANNUAL MAINTENANCE TAX NOT TO EXCEED TEN CENTS (\$0.10) ON EACH \$100 VALUATION OF ALL TAXABLE PROPERTY WITHIN SAID DISTRICT TO SECURE FUNDS FOR MAINTENANCE AND OTHER AUTHORIZED PURPOSES RELATED TO RECREATIONAL FACILITIES, INCLUDING, BUT NOT LIMITED TO, FUNDS FOR PLANNING, CONSTRUCTING, ACQUIRING, MAINTAINING, REPAIRING AND OPERATING ALL NECESSARY LAND, FACILITIES, IMPROVEMENTS, APPLIANCES AND EQUIPMENT OF SUCH RECREATIONAL FACILITIES, AND FOR THE PAYMENT

OF PROPER SERVICES, ENGINEERING AND LEGAL FEES, AND ADMINISTRATIVE
EXPENSES IN ACCORDANCE WITH THE CONSTITUTION AND LAWS OF THE STATE
OF TEXAS?

WHEREAS, the returns of said elections have been certified to
this Board of Directors by the appropriate election officials; and

WHEREAS, the official election returns show that the duly
qualified voters of the District cast two (2) ballots at said
elections, and the votes cast for each of the propositions were as
follows:

PROPOSITION NO. I

FOR		2 votes
	DISTRICT	
AGAINST		0 votes

PROPOSITION NO. II

FOR	THE ISSUANCE OF WATER, SANITARY SEWER AND DRAINAGE FACILITIES BONDS AND THE LEVY OF TAXES IN PAYMENT OF THE BONDS	2 votes
AGAINST		0 votes

PROPOSITION NO. III

FOR	THE ISSUANCE OF RECREATIONAL FACILITIES BONDS AND THE LEVY OF OF TAXES IN PAYMENT OF THE BONDS	2 votes
AGAINST		0 votes

PROPOSITION NO. IV

FOR	THE ISSUANCE OF ROAD FACILITIES BONDS AND THE LEVY OF TAXES IN PAYMENT OF THE BONDS	2 votes
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AGAINST		0 votes
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PROPOSITION NO. V

FOR	THE ISSUANCE OF REFUNDING BONDS AND THE LEVY OF TAXES IN PAYMENT OF THE BONDS	2 votes
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AGAINST		0 votes
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PROPOSITION NO. VI

FOR	MAINTENANCE TAX	2 votes
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AGAINST		0 votes
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PROPOSITION NO. VII

FOR	MAINTENANCE TAX FOR RECREATIONAL FACILITIES	2 votes
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AGAINST		0 votes
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and

WHEREAS, said official election returns further show that the votes cast for permanent directors at such elections were as follows:

Gary Calfee	2 votes
Donald E. Robinowitz	2 votes
Adam H. Soffar	2 votes
Irving A. Wolf	2 votes
Robert L. Tompkins	2 votes

and

WHEREAS, the above totals are shown in the official election returns heretofore submitted to the Board of Directors and filed with the President and Secretary of the Board of Directors; and

WHEREAS, such elections were called and held in all respects under and in strict conformity with the Constitution and laws of the State of Texas and the United States of America; and

WHEREAS, a canvass of the returns of said elections at this meeting of the Board of Directors is as soon as reasonably practical after such elections; Now, Therefore

BE IT ORDERED BY THE BOARD OF DIRECTORS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126:

Section 1: The matters and facts recited in the above preamble of this Order are found to be true and correct.

Section 2: The elections held within and for the District on the 9th day of May, 2009, which are more fully described in the preamble to this Order, were called and notice was given thereof under the hand of the President and Secretary of the Board of Directors of the District in accordance with law; that the elections were held in all respects in conformity with law; and that returns of the elections have been lawfully made by the proper officer.

Section 3: The elections have resulted in a majority vote for the District, and it is hereby found, determined and declared that Montgomery County Municipal Utility District No. 126 is duly and lawfully created in Montgomery County, Texas, with boundaries as described by metes and bounds in Exhibit "A" hereto, which is hereby incorporated herein for all purposes.

Section 4: In addition, said elections have resulted in the election of five (5) permanent directors for the District. Pursuant to Section 49.102 of the Texas Water Code the directors

who were elected have agreed that they shall designate their respective initial terms of office as follows: Irving A. Wolf and Robert L. Tompkins, shall serve for a term ending after the annual directors election to be held on the first Saturday in May, 2010, and Gary Calfee, Donald E. Robinowitz and Adam H. Soffar, shall serve for a term ending after the annual directors election to be held the first Saturday in May, 2012.

Section 5: The elections have further resulted favorably toward the issuance of the bonds described in Proposition II submitted at the elections, and, pursuant to applicable law, such bonds may be issued in various series or issues, with or without interest coupons, in any denomination, payable at such time or times, in such amount or amounts or installments, at such place or places, in such form, under such terms, conditions, and details, in such manner, redeemable prior to maturity at any time or times, bearing no interest, or bearing interest at any rate or rates (either fixed, variable, floating, adjustable, or otherwise), all as determined by the Board of Directors. The Board of Directors is now authorized to issue \$41,320,000 in water, sanitary sewer and drainage facilities bonds of the District, as described in said Proposition II, upon the terms and conditions described therein and herein and to do any and all things necessary and convenient in connection therewith and, to ensure the continuing and orderly development of the District on terms and conditions which are feasible and practical, the District anticipates that said bonds will be issued in multiple series or issues over an extended period.

of time all as determined by the Board of Directors to be feasible and practical and in the best interests of the District.

Section 6: The elections have further resulted favorably toward the issuance of the bonds described in Proposition III submitted at the elections, and, pursuant to applicable law, such bonds may be issued in various series or issues, with or without interest coupons, in any denomination, payable at such time or times, in such amount or amounts or installments, at such place or places, in such form, under such terms, conditions, and details, in such manner, redeemable prior to maturity at any time or times, bearing no interest, or bearing interest at any rate or rates (either fixed, variable, floating, adjustable, or otherwise), all as determined by the Board of Directors. The Board of Directors is now authorized to issue \$4,100,000 in recreational facilities bonds of the District, as described in said Proposition III, upon the terms and conditions described therein and herein and to do any and all things necessary and convenient in connection therewith and, to ensure the continuing and orderly development of the District on terms and conditions which are feasible and practical, the District anticipates that said bonds will be issued in multiple series or issues over an extended period of time all as determined by the Board of Directors to be feasible and practical and in the best interests of the District.

Section 7: The elections have further resulted favorably toward the issuance of the bonds described in Proposition IV submitted at the elections, and, pursuant to applicable law, such bonds may be issued in various series or issues, with or without

interest coupons, in any denomination, payable at such time or times, in such amount or amounts or installments, at such place or places, in such form, under such terms, conditions, and details, in such manner, redeemable prior to maturity at any time or times, bearing no interest, or bearing interest at any rate or rates (either fixed, variable, floating, adjustable, or otherwise), all as determined by the Board of Directors. The Board of Directors is now authorized to issue \$6,000,000 in road facilities bonds of the District, as described in said Proposition IV, upon the terms and conditions described therein and herein and to do any and all things necessary and convenient in connection therewith and, to ensure the continuing and orderly development of the District on terms and conditions which are feasible and practical, the District anticipates that said bonds will be issued in multiple series or issues over an extended period of time all as determined by the Board of Directors to be feasible and practical and in the best interests of the District.

Section 8: The elections have also resulted favorably toward the issuance of the refunding bonds described in Proposition V submitted at the elections, and the Board of Directors is now authorized to issue \$51,420,000 in refunding bonds of the District, as described in said Proposition V, upon the terms and conditions described therein and to do any and all things necessary and convenient in connection therewith and the District anticipates that said bonds will be issued in multiple series or issues over an extended period of time all as determined by the Board of Directors

to be feasible and practical and in the best interests of the District.

Section 9: The elections have also resulted favorably toward the levy and collection of a maintenance tax, as described in Proposition VI submitted at the elections, and the Board of Directors is now authorized to levy and collect an annual maintenance tax not to exceed One Dollar and Fifty Cents (\$1.50) of each \$100 valuation of all taxable property within said District, upon the terms and conditions and for the purposes stated in said Proposition VI.

Section 10: The elections have also resulted favorably toward the levy and collection of a maintenance tax specifically for recreational facilities, as described in Proposition VII submitted at the elections, and the Board of Directors is now authorized to levy and collect an annual maintenance tax specifically for recreational facilities not to exceed Ten Cents (\$0.10) of each \$100 valuation of all taxable property within said District, upon the terms and conditions and for the purposes stated in said Proposition VII.

Section 11: It is hereby found, determined and declared that the meeting at which this Order is adopted is open to the public as required by law, and that public notice of the time, date, place and subject matter of this meeting and of the proposed adoption of this Order was given, furnished and posted as required by law.

Section 12: A certified copy of this Order shall be promptly filed with the Texas Commission on Environmental Quality and in the Official Records of Real Property of Montgomery County, Texas.

PASSED AND APPROVED this 14th day of May, 2009.

/s/ Gary Calfee
President, Board of Directors

ATTEST:

/s/ Adam H. Soffar
Secretary, Board of Directors

(SEAL)

Exhibit A

MAPS AND RECORD DESCRIPTION
 20.48 ACRES IN THE
 JAMES EDWARDS SURVEY, ABSTRACT NO. 199 AND THE
 EDGAR CORLAND SURVEY, ABSTRACT NO. 7
 MONTCALM COUNTY, TEXAS

A 20.48-ACRE TRACT OF LAND ENTITLED IN THE JAMES EDWARDS SURVEY, ABSTRACT NO. 199, AND THE EDGAR CORLAND SURVEY, ABSTRACT NO. 7, MONTCALM COUNTY, TEXAS, BEING A PORTION OF THAT CALLED 19.1786-ACRE TRACT CONVERTED TO HOLSTON INTERNATIONAL TRADE CENTER, L.P., BY WARRANTY DEED RECORDED UNDER MONTCALM COUNTY CLERK'S FILE NO. 2007112579, ALL OF THAT CALLED 20.48-ACRE TRACT CONVERTED TO DAVID HENDERSON BY GENERAL WARRANTY DEED WITH VENDOR'S LBN RECORDED UNDER MONTCALM COUNTY CLERK'S FILE NO. 2007112579, ALL OF THAT CALLED 20.48-ACRE TRACT CONVERTED TO DAVID HENDERSON BY SPECIAL WARRANTY DEED WITH VENDOR'S LBN RECORDED UNDER MONTCALM COUNTY CLERK'S FILE NO. 2007112579, ALL OF THAT CALLED 20.48-ACRE TRACT CONVERTED TO HOLSTON INTERNATIONAL TRADE CENTER, L.P., BY GENERAL WARRANTY DEED WITH VENDOR'S LBN RECORDED UNDER MONTCALM COUNTY CLERK'S FILE NO. 2007112579, AND ALL OF THAT CALLED 20.48-ACRE TRACT CONVERTED TO HOLSTON INTERNATIONAL TRADE CENTER, L.P., BY WARRANTY DEED WITH VENDOR'S LBN RECORDED UNDER MONTCALM COUNTY CLERK'S FILE NO. 2007112579, ALL OF THE OFFICIAL PUBLIC RECORDS OF SHELBY COUNTY, TEXAS, AND 20.48-ACRE TRACT BEING A PORTION OF THE TRACTS OWNED BY JAMES AND BEATRICE AS FOLLOWS WITH ALL EASEMENTS BASED ON THE TEXAS COMMON-LAW THEORY OF LBN, CENTRAL ZONE, AS DETERMINED BY GPS MEASUREMENTS.

BEGINNING at a 5/8-inch iron rod found on the south line of Langston Hwy (Hwy 60) (right-of-way) recorded under Montgomery County Clerk's File No. 2007112579 of the Official Public Records of Shelby County, Texas, being the southeast corner of the 1/2-section of Langston on Lake Carson Section 3, plat of which is recorded in Official 1, Sheet 181 Unit 183 of the Montgomery County Map Records;

THENCE North 13°49'55" East, along the east line of said Block of Langston on Lake Carson Section 1 and 2, at 612.64 feet, passing the southeast corner of said Block of Langston on Lake Carson Section 1 and 2 and the southeast corner of Langston on Lake Carson Section 3, plat of which is recorded in Official 1, Sheet 181 Unit 183 of the Montgomery County Map Records, and continuing to 612.64 feet to a 5/8-inch iron rod found on the southeast corner of said Langston on Lake Carson Section 3;

THENCE North 77°12'19" West, 1184.83 feet, along the south line of said Langston on Lake Carson Section 3, to a 5/8-inch iron rod with cap stamped "7412.64, 712.7345, 4500" and being the corner of said Langston on Lake Carson Section 3;

THENCE North 1°09'42" East, 565.74 feet, along the north line of said Langston on Lake Carson Section 3, to a 5/8-inch iron rod found on the southeast corner of Block 77 of said Langston on Lake Carson Section 3, being on the 201-foot contour line;

THENCE along the 201-foot contour line, the following they [59] corners and distances:

- (4) South 6°23'59" East, 33.27 feet to a point;
- (5) North 80°23'40" East, 14.05 feet to a point;
- (6) South 81°03'51" East, 14.40 feet to a point;
- (7) South 4°41'10" East, 34.73 feet to a point;
- (8) South 25°42'10" East, 22.65 feet to a point;
- (9) South 21°31'26" East, 42.80 feet to a point;
- (10) South 24°18'55" East, 31.45 feet to a point;

20.48 Acres
 James Edwards Survey, Abstract No. 199
 Edgar Corland Survey, Abstract No. 7
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- (11) South 23°02'23" East, 43.48 feet to a point;
- (12) South 32°41'37" East, 41.56 feet to a point;
- (13) South 38°04'34" East, 21.82 feet to a point;
- (14) South 43°05'41" East, 23.35 feet to a point;
- (15) South 89°37'44" East, 22.50 feet to a point;
- (16) North 82°41'04" East, 21.03 feet to a point;
- (17) North 32°08'28" East, 44.39 feet to a point;
- (18) North 18°18'15" West, 36.41 feet to a point;
- (19) North 08°26'25" West, 45.34 feet to a point;
- (20) North 15°23'27" East, 43.58 feet to a point;
- (21) North 11°14'01" East, 48.40 feet to a point;
- (22) North 13°00'46" East, 21.25 feet to a point;
- (23) North 10°48'35" East, 30.79 feet to a point;
- (24) North 32°18'05" East, 12.24 feet to a point;
- (25) North 58°33'18" East, 11.79 feet to a point;
- (26) South 80°43'18" East, 26.84 feet to a point;
- (27) South 63°13'18" East, 31.78 feet to a point;
- (28) South 56°39'23" East, 57.34 feet to a point;
- (29) South 58°37'32" East, 54.26 feet to a point;
- (30) South 58°24'03" East, 33.37 feet to a point;
- (31) South 57°44'33" East, 37.88 feet to a point;
- (32) South 58°14'18" East, 28.57 feet to a point;
- (33) South 58°35'00" East, 46.08 feet to a point;
- (34) South 50°39'40" East, 31.81 feet to a point;
- (35) South 81°19'12" East, 21.88 feet to a point;
- (36) North 34°51'06" East, 20.33 feet to a point;
- (37) North 18°38'43" East, 23.18 feet to a point;
- (38) North 27°35'35" West, 25.09 feet to a point;
- (39) North 45°39'31" West, 31.29 feet to a point;
- (40) North 38°14'33" West, 41.42 feet to a point;
- (41) North 48°11'04" West, 42.03 feet to a point;
- (42) North 52°44'02" West, 37.78 feet to a point;

- (43) North 47°31'18" West, 36.54 feet to a point;
- (44) North 31°00'12" West, 68.46 feet to a point;
- (45) North 54°27'30" West, 53.57 feet to a point;
- (46) North 30°14'38" West, 43.08 feet to a point;
- (47) North 50°50'33" West, 63.18 feet to a point;
- (48) North 45°44'33" West, 53.82 feet to a point;
- (49) North 17°44'30" West, 55.91 feet to a point;
- (50) North 04°00'03" West, 47.37 feet to a point;
- (51) North 16°15'40" West, 51.54 feet to a point;
- (52) North 18°27'28" West, 69.20 feet to a point;
- (53) North 09°53'22" East, 34.80 feet to a point on the south line of Pebble Glen on the Lake plot of which is recorded in Cabinet N, Sheets 125 thru 128;
- (54) THENCE South 61°28'22" East, at 18.00 feet passing a 5/8-inch iron rod with cap stamped "E.H.R.S.A. 713-714-1000" set for reference, and continuing in all 649.61 feet to a 5/8-inch iron rod found for the southeast corner of said Pebble Glen on the Lake;
- (55) THENCE North 11°48'44" East, along the east line of said Pebble Glen on the Lake, at 1001.87 feet passing a 3/8-inch iron rod found for the northeast corner of said Pebble Glen on the Lake, and continuing in all 1012.68 feet to a point on the 201-foot contour line;
- THENCE along the 201-foot contour line, the following twenty-one (21) courses and distances:
- (56) South 87°34'31" East, 44.31 feet to a point;
- (57) North 85°18'19" East, 103.76 feet to a point;
- (58) South 87°41'11" East, 41.82 feet to a point;
- (59) South 88°57'21" East, 52.34 feet to a point;
- (60) South 83°38'25" East, 51.16 feet to a point;
- (61) South 87°20'16" East, 50.00 feet to a point;
- (62) North 85°40'28" East, 43.08 feet to a point;
- (63) North 85°02'07" East, 48.48 feet to a point;
- (64) South 89°38'11" East, 15.57 feet to a point;
- (65) North 67°32'38" East, 22.64 feet to a point;
- (66) North 02°29'33" East, 28.08 feet to a point;
- (67) North 80°13'32" East, 28.04 feet to a point;
- (68) North 67°39'40" West, 30.47 feet to a point;
- (69) North 74°43'23" West, 56.58 feet to a point;
- (70) North 73°25'22" West, 43.28 feet to a point;
- (71) South 85°37'31" West, 74.43 feet to a point;

- (72) North 68°28'00" West, 40.10 feet to a point
- (73) North 84°38'33" West, 45.92 feet to a point
- (74) North 86°08'04" West, 59.74 feet to a point
- (75) North 78°31'57" West, 49.92 feet to a point
- (76) North 88°16'23" West, 83.48 feet to a point on the east line of Calfee Road (50-foot right-of-way) recorded in Volume 632, Page 287 and Volume 646, Page 138, both of the Montgomery County Deed Records
- (77) THENCE North 11°11'22" East, 229.43 feet along the east line of said Calfee Road to a 1/2-inch iron rod found, being the southeast corner of the aforementioned 23.419-acre tract;
- THENCE in a northerly direction along the common line of said Calfee Road and said 23.419-acre tract, the following three (3) courses and distances:
- (78) North 21°10'57" East, 89.82 feet to a PK Nail found;
- (79) North 81°27'01" East, 108.82 feet to a 5/8-inch iron rod found;
- (80) North 12°49'03" East, 328.16 feet to a point on the southwest corner of Longene Line Road (50-foot right-of-way) extended in Volume 628, Page 182 and Volume 1048, Page 377, both of the Montgomery County Deed Records from which a 1/2-inch iron rod with cap stamped "Jed Moon RPLS 4838" found for the most westerly northwest corner of said 23.419-acre tract recorded under Montgomery County Clerk's File No. 200908-4830 of the Official Public Records of Real Property bears North 12°49'03" East, 131.02 feet;
- (81) THENCE South 78°39'02" East, at 86.86 feet passing a PK Nail found for the corner of said 23.419-acre tract, and continuing in all 1082.78 feet, along the south line of said Longene Line Road same as said 23.419-acre tract, to a 5/8-inch iron rod found;
- (82) THENCE South 77°18'32" East, 880.27 feet, continuing along the north line of said 23.419-acre tract same as south line of Longene Line Road, to a 3/8-inch iron rod found, being the northeast corner of said 23.419-acre tract and on the west line of the remainder of a called 98.833-acre tract (Tract J) recorded under Montgomery County Clerk's File No. 98098723 of the Official Public Records of Real Property;
- (83) THENCE South 12°08'43" West, along the common line of said remainder tract and said 23.419-acre tract, at 484.50 feet passing a 3/8-inch iron rod found, and continuing in all 483.18 feet to a 3/8-inch iron rod with cap stamped "E.H.E.S.A. 713-984-4500" set on the south line of said remainder tract, also being on the north line of a called 121.838-acre tract recorded in Volume 488, Page 131 of the Montgomery County Deed Records and the north line of aforementioned 23.43-acre tract;
- (84) THENCE South 77°02'20" East, 2149.48 feet along the common line of said remainder tract, said 121.838-acre tract and said 23.43-acre tract, to an iron stake found on the east line of Longene Road, being the southeast corner of said 121.838-acre tract and said 23.43-acre tract and the southeast corner of a called 98.73-acre tract recorded under Montgomery County Clerk's File No. 9891854 of the Official Public Records of Real Property;
- (85) THENCE South 12°12'48" West, along the common line of said 121.838-acre tract, said 23.43-acre tract, said Longene Road, and Longene Way, said 98.73-acre tract, aforementioned 33.881-acre tract, and aforementioned 37.364-acre tract, at 438.83 feet, passing a 1/2-inch iron found for the common west corner said 23.43-acre tract, and said 33.881-acre tract, at 1074.23 feet passing a 1/2-inch iron rod found for the common west corner of said 33.881-acre tract and said 37.364-acre tract, and continuing in all 1791.25 feet to a PK Nail found for the southeast corner of said 37.364-acre tract and the northwest corner of a called 26.8878-acre tract recorded under Montgomery County Clerk's File No. 2006200900 of the Official Public Records of Real Property;

- (16) THENCE North $77^{\circ}23'49''$ West, 2280.38 feet, along the common line of said 37.984-acre tract and said 28.5516-acre tract, to a 1/2-inch iron rod found for the common west corner of said 37.984-acre tract and said 28.5516-acre tract, being on the east line of aforementioned 321.470-acre tract;
- (17) THENCE South $11^{\circ}58'50''$ West, 807.48 feet along the common line of said 28.5516-acre tract and said 321.470-acre tract, to a 3/4-inch iron pipe found for the southwest corner of said 28.5516-acre tract and the northwest corner of The Estates of Longmire on Lake Conroe, plat of which is recorded in Civilized H. Sheets 328, 334, 335, and 344 of the Montgomery County Map Records;
- (18) THENCE South $11^{\circ}12'47''$ West, 1416.70 feet, along the common line of said 321.470-acre tract and said The Estates of Longmire on Lake Conroe, to a fence corner on the north line of the aforementioned Longmire Way, being on the arc of a non-tangent curve to the right;
- THENCE in a westerly direction, along the north line of said Longmire Way, the following are (a) courses and distances:
- (19) Along the arc of said curve to the right having a radius of 1980.56 feet, a central angle of $07^{\circ}37'51''$, an arc length of 195.63 feet, and a chord bearing North $74^{\circ}23'54''$ West, 195.95 feet to a 5/8-inch iron rod found at a point of reverse curvature;
- (20) Along the arc of said curve to the left having a radius of 224.29 feet, a central angle of $14^{\circ}21'06''$, an arc length of 206.47 feet, and a chord bearing North $78^{\circ}23'15''$ West, 206.93 feet to a 5/8-inch iron rod found at a point of reverse curvature;
- (21) Along the arc of said curve to the right having a radius of 1499.87 feet, a central angle of $07^{\circ}29'48''$, an arc length of 188.89 feet, and a chord bearing North $82^{\circ}21'44''$ West, 186.66 feet to a 3/8-inch iron rod found;
- (22) North $78^{\circ}37'21''$ West, 386.86 feet to a 1/2-inch iron rod found at the beginning of a curve to the left;
- (23) Along the arc of said curve to the left having a radius of 2711.89 feet, a central angle of $04^{\circ}18'18''$, an arc length of 202.14 feet, and a chord bearing North $80^{\circ}48'28''$ West, 202.08 feet to a 1/2-inch iron rod found at a point of reverse curvature;
- (24) Along the arc of said curve to the right having a radius of 1987.82 feet, a central angle of $06^{\circ}36'44''$, an arc length of 198.89 feet, and a chord bearing North $80^{\circ}04'11''$ West, 196.77 feet to the POINT OF BEGINNING, containing a gross acreage of 293.49 acres of land.

EDWINSTER, HIGHWAY FILES AND ASSOCIATES, INC.

Paul A. Dabolt, R.P.L.S.
Taxes Registration No. 5902
10535 Westoffice Drive
Houston, Texas 77042
713-784-4900

Filed: Jan 27, 2009
Job No: 071-018-00
File No: 2009-071-018-00 (also attached to 071-018-00)



STATE OF TEXAS
COUNTY OF MONTGOMERY

I hereby certify this instrument was filed in
File Number Sequence on the date and at the time
stamped herein by me and was duly RECORDED in
the Official Public Records of Real Property at
Montgomery County, Texas.

MAY 20 2009



Mark Turnbull
County Clerk
Montgomery County, Texas

FILED FOR RECORD

2009 MAY 20 AM 9:53

Mark Turnbull
COUNTY CLERK
MONTGOMERY COUNTY, TEXAS

293.49 Acres
James Edwards Survey, A-470
Bible College Survey, A-7
Page 5 of 6

EXHIBIT "D"
THE PROPERTY

EXHIBIT "2"

METES AND BOUNDS DESCRIPTION
MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
229.91 ACRES IN THE
JAMES EDWARDS SURVEY, ABSTRACT NO. 190 AND THE
ELIAH COLLARD SURVEY, ABSTRACT NO. 7
MONTGOMERY COUNTY, TEXAS

A 298.49 ACRE TRACT OF LAND SITUATED IN THE JAMES EDWARDS SURVEY, ABSTRACT NO. 190, AND THE ELIAH COLLARD SURVEY, ABSTRACT NO. 7, MONTGOMERY COUNTY, TEXAS, BEING THE FOLLOWING TRACTS OF LAND CONVEYED TO HOUSTON INTERNATIONAL TRADE CENTER L.P. A CALLED 175.1768 ACRE TRACT RECORDED UNDER MONTGOMERY COUNTY CLERK'S FILE NO. (M.C.C.F. NO.) 2007112579, A CALLED 23.43 ACRE TRACT RECORDED UNDER M.C.C.F. NO. 2010074461, A CALLED 87.564 ACRE TRACT RECORDED UNDER M.C.C.F. NO. 2010074462, A CALLED 33.861 ACRE TRACT RECORDED UNDER M.C.C.F. NO. 2007009290, A CALLED 29.419 ACRE TRACT RECORDED UNDER M.C.C.F. NO. 2007112578, ALL OF THE OFFICIAL PUBLIC RECORDS OF REAL PROPERTY (O.P.R.O.R.P.) AND ALL OF A CALLED 0.210 ACRE TRACT CONVEYED TO JMSC UTILITY COMPANY IN M.C.C.F. NO. 2000012765 O.P.R.O.R.F. AND ALL OF A 0.1275 ACRE TRACT IN M.C.C.F. NO. 2008-052588, A 0.1383 ACRE TRACT IN M.C.C.F. NO. 2008-052590, A 0.1185 ACRE TRACT IN M.C.C.F. NO. 2008-052592, A 0.1287 ACRE TRACT IN M.C.C.F. NO. 2008-052594 AND A 0.1285 ACRE TRACT IN M.C.C.F. NO. 2008-052596; SAID 298.49 ACRE TRACT BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS WITH ALL BEARINGS BASED ON THE TEXAS STATE PLANE COORDINATE SYSTEM OF 1983, CENTRAL ZONE, AS DETERMINED BY GPS MEASUREMENTS;

BEGINNING at a 5/8-inch Iron rod found on the north line of Longmire Way (60-foot right-of-way) recorded under M.C.C.F. No. 9536980 O.P.R.O.R.P., being the southeast corner of Reserve "C" of the Replat of Longmire on Lake Conroe, plat of which is recorded in Cabinet J, Sheets 161 thru 163 of the Montgomery County Map Records (M.C.M.R.);

- (1) THENCE North 12°49'59" East, along the east line of said Replat of Longmire on Lake Conroe, at 912.84 feet passing the northeast corner of said Replat of Longmire on Lake Conroe and the southeast corner of Longmire on Lake Conroe Section 3, plat of which is recorded in Cabinet I, Sheets 59 thru 85 M.C.M.R. and continuing in all 1255.98 feet to a 3/8-inch iron rod found for the northeast corner of said Longmire on Lake Conroe Section 3;
- (2) THENCE North 77°12'16" West, 1818.68 feet, along the north line of said Longmire on Lake Conroe Section 3, to a 1000 Nail found for an interior corner of said Longmire on Lake Conroe Section 3, from which a found 5/8-inch iron rod bears South 39°28' East, 0.76 feet;
- (3) THENCE North 11°56'28" East, 565.74 feet, along an interior line of said Longmire on Lake Conroe Section 3, to a 5/8-inch iron rod found for the northeast corner of Reserve "D" of said Longmire on Lake Conroe Section 3, being on the 201-foot contour line;

THENCE along the 201-foot contour line, the following fifty (50) courses and distances:

- (4) South 87°23'59" East, 39.75 feet to a point;
- (5) North 60°22'00" East, 14.06 feet to a point;
- (6) South 88°39'51" East, 14.40 feet to a point;
- (7) South 44°41'08" East, 14.73 feet to a point;
- (8) South 25°42'16" East, 29.63 feet to a point;
- (9) South 21°31'26" East, 48.80 feet to a point;
- (10) South 24°18'55" East, 36.63 feet to a point;
- (11) South 23°02'23" East, 43.48 feet to a point;
- (12) South 32°41'37" East, 41.36 feet to a point;
- (13) South 39°04'34" East, 28.02 feet to a point;
- (14) South 49°05'41" East, 29.55 feet to a point;
- (15) South 89°57'44" East, 22.50 feet to a point;
- (16) North 62°41'04" East, 21.03 feet to a point;
- (17) North 32°09'28" East, 44.39 feet to a point;

- (18) North 10°10'15" West, 36.41 feet to a point;
- (19) North 09°26'25" West, 43.54 feet to a point;
- (20) North 15°28'27" East, 43.39 feet to a point;
- (21) North 11°14'01" East, 48.40 feet to a point;
- (22) North 13°00'46" East, 21.26 feet to a point;
- (23) North 10°49'35" East, 10.79 feet to a point;
- (24) North 22°19'05" East, 12.24 feet to a point;
- (25) North 58°33'18" East, 11.79 feet to a point;
- (26) South 80°41'16" East, 26.94 feet to a point;
- (27) South 63°13'25" East, 31.75 feet to a point;
- (28) South 56°59'25" East, 57.54 feet to a point;
- (29) South 83°37'32" East, 84.26 feet to a point;
- (30) South 59°24'03" East, 33.57 feet to a point;
- (31) South 57°44'58" East, 37.89 feet to a point;
- (32) South 58°14'18" East, 85.57 feet to a point;
- (33) South 59°35'00" East, 48.09 feet to a point;
- (34) South 50°39'40" East, 31.93 feet to a point;
- (35) South 81°19'12" East, 21.88 feet to a point;
- (36) North 34°31'08" East, 20.55 feet to a point;
- (37) North 19°39'43" East, 23.19 feet to a point;
- (38) North 27°25'55" West, 25.09 feet to a point;
- (39) North 46°59'51" West, 31.29 feet to a point;
- (40) North 38°24'58" West, 41.42 feet to a point;
- (41) North 48°11'04" West, 42.03 feet to a point;
- (42) North 32°44'02" West, 87.76 feet to a point;
- (43) North 47°31'18" West, 36.54 feet to a point;
- (44) North 51°00'12" West, 66.46 feet to a point;
- (45) North 54°27'30" West, 53.57 feet to a point;
- (46) North 30°14'58" West, 43.08 feet to a point;
- (47) North 50°50'55" West, 63.18 feet to a point;
- (48) North 45°44'33" West, 53.82 feet to a point;
- (49) North 17°44'30" West, 55.91 feet to a point;
- (50) North 04°00'09" West, 43.57 feet to a point;
- (51) North 16°15'40" West, 51.84 feet to a point;
- (52) North 15°27'22" West, 69.20 feet to a point;

- (53) North 09°53'22" East, 38.80 feet to a point on the south line of Pebble Glen on the Lake, plat of which is recorded in Cabinet N, Sheets 125 thru 128 M.C.M.R.;
- (54) THENCE South 81°28'21" East, at 10.00 feet passing a 5/8-inch iron rod with cap stamped "E.H.R. & A. 713-784-4500" set for reference, and continuing in all 849.60 feet to a 3/8-inch iron rod found for the southeast corner of said Pebble Glen on the Lake;
- (55) THENCE North 11°49'44" East, along the east line of said Pebble Glen on the Lake, at 1001.57 feet passing a 5/8-inch iron rod found for the northeast corner of said Pebble Glen on the Lake, and continuing in all 1012.69 feet to a point on the 201-foot contour line;

THENCE along the 201-foot contour line, the following twenty-one (21) courses and distances:

- (56) South 87°34'31" East, 44.31 feet to a point;
- (57) North 85°18'39" East, 103.75 feet to a point;
- (58) South 87°41'11" East, 41.82 feet to a point;
- (59) South 89°57'21" East, 52.34 feet to a point;
- (60) South 83°58'25" East, 51.15 feet to a point;
- (61) South 87°20'06" East, 50.00 feet to a point;
- (62) North 85°40'28" East, 43.86 feet to a point;
- (63) North 89°02'07" East, 48.48 feet to a point;
- (64) South 88°39'11" East, 13.57 feet to a point;
- (65) North 67°32'38" East, 22.65 feet to a point;
- (66) North 02°29'35" East, 28.08 feet to a point;
- (67) North 00°18'32" East, 29.04 feet to a point;
- (68) North 67°39'40" West, 30.47 feet to a point;
- (69) North 74°43'23" West, 56.56 feet to a point;
- (70) North 75°25'23" West, 43.28 feet to a point;
- (71) South 86°37'31" West, 74.43 feet to a point;
- (72) North 69°28'00" West, 40.10 feet to a point;
- (73) North 84°38'59" West, 45.92 feet to a point;
- (74) North 85°08'04" West, 58.74 feet to a point;
- (75) North 79°31'57" West, 49.92 feet to a point;
- (76) South 68°16'28" West, 53.47 feet to a point on the east line of Calfee Road (60-foot right-of-way) recorded in Volume 632, Page 291 and Volume 640, Page 139, both of the Montgomery County Deed Records;
- (77) THENCE North 11°11'40" East, 229.45 feet along the east line of said Calfee Road to a 1/2-inch iron rod found, being the southwest corner of the aforementioned 23.419-acre tract;
- THENCE in a northerly direction along the common line of said Calfee Road and said 23.419-acre tract, the following three (3) courses and distances:
- (78) North 21°10'19" East, 89.90 feet to a PK Nail found;
- (79) North 51°27'01" East, 105.82 feet to a 5/8-inch iron rod found;
- (80) North 12°47'06" East, 528.18 feet to a point on the southwest corner of League Line Road (60-foot right-of-way) recorded in Volume 823, Page 102 and Volume 1049, Page 571, both of the Montgomery County Deed Records from which a 1/2-inch iron rod with cap stamped "Jeff Moon RPLS 4539" found for the most westerly northwest corner of said 23.419-acre tract;

- (81) THENCE South 76°39'07" East, at 98.85 feet passing a 5/8-inch iron rod with cap stamped "Jeff Moon RPLS 4538" found for the corner of said 23.989-acre tract, and continuing in all 1062.79 feet, along the south line of said League Line Road to a 5/8-inch iron rod found;
- (82) THENCE South 77°19'32" East, 890.27 feet, continuing along the south line of League Line Road, to a 5/8-inch iron rod found (bent), being the northeast corner of said 23.419-acre tract;
- (83) THENCE South 12°09'49" West, along the east line of said called 23.419 acre tract, at a distance of 484.50 feet pass a 5/8-inch iron rod found, and continuing a total of 485.18 feet to a point in the north line of a called 121.838 acre tract recorded in Volume 458, Page 131 M.C.O.R.;
- (84) THENCE South 77°02'20" East, 2149.46 feet to an iron strap found on the east line of Longmire Road, being the northeast corner said 28.43-acre tract and the northwest corner of a called 98.75-acre tract recorded under M.C.C.F. No. 9891554 O.P.R.O.R.P.;
- (85) THENCE South 12°12'48" West, along said Longmire Road and Longmire Way, at 428.83 feet passing a 1/2-inch iron found for the common east corner-said 28.43-acre tract, and said 33.861-acre tract, at 1074.23 feet passing a 1/2-inch iron rod found for the common east corner of said 33.861-acre tract and said 37.564-acre tract, and continuing in all 1791.25 feet to a PK Nail found for the southeast corner of said 37.564-acre tract and the northeast corner of Camellia Subdivision Section One-Final Plat, recorded in Cabinet Z, Sheets 68-65 M.C.M.R.;
- (86) THENCE North 77°58'49" West, 2280.27 feet, along the common line of said 37.564-acre tract and said 26.5516-acre tract, to a 1/2-inch iron rod found for the common west corner of said called 37.564 acre tract and said called 26.5516 acre tract;
- (87) THENCE South 12°00'34" West, 507.56 feet to a 3/4-inch iron pipe found for the southwest corner of said called 26.5516 acre tract and the northwest corner of The Estates of Longmire on Lake Conroe, a subdivision of record in Cabinet H, Sheets 92B, 93A-B M.C.M.R.;
- (88) THENCE South 11°12'25" West, 1416.83 feet, along the west line of said The Estates of Longmire on Lake Conroe, to a fence corner on the north line of the aforementioned Longmire Way, being on the arc of a non-tangent curve to the right;
- THENCE in a westerly direction, along the north line of said Longmire Way, the following six (6) courses and distances:
- (89) Along the arc of said non-tangent curve to the right having a radius of 1990.56 feet, a central angle of 05°37'51", an arc length of 195.63 feet, and a chord bearing North 74°33'58" West, 195.55 feet to a 5/8-inch iron rod found at a point of reverse curvature;
- (90) Along the arc of said curve to the left having a radius of 824.29 feet, a central angle of 14°21'06", an arc length of 208.47 feet, and a chord bearing North 78°55'35" West, 205.93 feet to a 5/8-inch iron rod found at a point of reverse curvature;
- (91) Along the arc of said curve to the right having a radius of 1499.91 feet, a central angle of 07°28'48", an arc length of 199.80 feet, and a chord bearing North 82°21'44" West, 195.66 feet to a 5/8-inch iron rod found for tangency;
- (92) North 78°37'21" West, 386.86 feet to a 1/2-inch iron rod found at the beginning of a curve to the left;
- (93) Along the arc of said curve to the left having a radius of 2711.89 feet, a central angle of 04°16'15", an arc length of 202.14 feet, and a chord bearing North 80°45'28" West, 202.09 feet to a 1/2-inch iron rod found at a point of reverse curvature;
- (94) Along the arc of said curve to the right having a radius of 1957.82 feet, a central angle of 05°38'44", an arc length of 196.85 feet, and a chord bearing North 80°04'13" West, 196.77 feet to the POINT OF BEGINNING, and containing 293.49 acres of land.

22.52 ACRE TRACT:

A 22.52 ACRE TRACT OF LAND SITUATED IN THE ELIJAH COLLARD SURVEY, ABSTRACT NO. 7, MONTGOMERY COUNTY, TEXAS, BEING THAT SAME CALLED 22.520 ACRE TRACT DESCRIBED IN DEED TO HOUSTON INTERCONTINENTAL TRADE CENTER, L.P. RECORDED IN M.C.C.F. NO. 2012080034 OF THE OFFICIAL PUBLIC RECORDS OF REAL PROPERTY; SAID 22.52 ACRE TRACT BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS WITH ALL BEARINGS BASED ON THE TEXAS STATE PLANE COORDINATE SYSTEM OF 1983, CENTRAL ZONE, AS DETERMINED BY GPS MEASUREMENTS;

BEGINNING at a 1/2-inch iron rod with cap stamped "CITY OF CONROE" found in the south line of League Line Road (120-foot width) recorded in Volume 1049, Page 577 of the Montgomery County Deed Records, being at the north end of a cutback at the intersection with the west line of Longmire Road (prescriptive R.D.W.);

- (1) THENCE, South 37°48'34" East, along said cutback, 149.56 feet to a point for corner in the west line of said Longmire Road;
- (2) THENCE, South 07°20'40" West, along the west line of said Longmire Road, 888.73 feet to a 1/2-inch iron rod with cap stamped "CITY OF CONROE" found for corner in the north line of a called 23.43 acre tract recorded under Montgomery County Clerk's File No. 2006101070 of the Official Public Records of Real Property;
- (3) THENCE, North 77°02'20" West, along the north line of said 23.43 acre tract, 2073.30 feet to a 3/8-inch iron rod with cap stamped "Moyer Surveying 5656" found, being the southeast corner of a called 28.694 acre tract recorded under Montgomery County Clerk's File No. 2007112578 of the Official Public Records of Real Property from which a 1-inch iron pipe found bears South 11°29'51" West, 11.03 feet, an iron snap found bears North 77°02'20" West, 140.10 feet, and a 5/8-inch iron rod found bears North 12°53'18" West, 0.68 feet;
- (4) THENCE, North 12°09'43" East, along the east line of said 23.634 acre tract, 470.94 feet to a 5/8-inch iron rod with cap stamped "CITY OF CONROE" found in the south line of said League Line Road from which a 5/8-inch iron rod found bears North 12°09'43" East, 14.24 feet;
- (5) THENCE, South 77°33'33" East, along the south line of said League Line Road, 1925.96 feet to the POINT OF BEGINNING containing 22.52 acres of land.

13.90 ACRE TRACT:

A 13.90 ACRE TRACT OF LAND SITUATED IN THE JAMES EDWARDS SURVEY, ABSTRACT NO. 190, MONTGOMERY COUNTY, TEXAS, BEING ALL OF A CALLED 13.895 ACRE TRACT CONVEYED TO HOUSTON INTERNATIONAL TRADE CENTER LP. RECORDED IN M.C.C.F. NO. 2012050569 OF THE OFFICIAL PUBLIC RECORDS OF REAL PROPERTY (O.P.R.O.R.P.); SAID 13.90 ACRE TRACT BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS WITH ALL BEARINGS BASED ON THE TEXAS STATE PLANE COORDINATE SYSTEM OF 1983, CENTRAL ZONE, AS DETERMINED BY GPS MEASUREMENTS;

BEGINNING at the northwest corner of Camellia Subdivision Section One-Final Plat, recorded in Cabinet Z, Sheets 59-65 M.C.M.R., being in the south line of a called 97.564 acre tract described in M.C.C.F. No. 2010074462 O.P.R.O.R.P.;

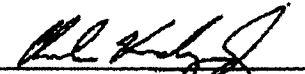
THENCE, with the westerly line of said Camellia Subdivision, the following fifteen (15) courses and distances:

- (1) South 87°06'37" West, 78.42 feet to the point of curvature to the right;
- (2) With said curve to the right having a radius of 25.00 feet, a central angle of 99°59'33", an arc length of 43.63 feet and a chord bearing of South 87°06'22" West, 34.30 feet to a 60D Nail found for corner;
- (3) South 41°44'23" West, 60.26 feet to a point for corner, being in the arc of a non-tangent curve to the right;
- (4) With said non-tangent curve to the right having a radius of 25.00 feet, a central angle of 112°53'57", an arc length of 49.26 feet and a chord bearing of South 00°21'49" East, 41.57 feet to a point for corner;
- (5) South 27°08'19" East, 60.76 feet to a point for corner, being in the arc of a non-tangent curve to the right;
- (6) With said non-tangent curve to the right having a radius of 30.00 feet, a central angle of 124°15'27", an arc length of 65.06 feet and a chord bearing of North 63°59'35" East, 53.04 feet to the point of reverse curvature;
- (7) With said reverse curve to the left having a radius of 330.00 feet, a central angle of 11°14'53", an arc length of 64.78 feet and a chord bearing of South 53°30'08" East, 64.63 feet to a 60D Nail found for corner;

- (8) With said reverse curve to the right having a radius of 25.00 feet, a central angle of $81^{\circ}25'45''$, an arc length of 35.32 feet and a chord bearing of South $24^{\circ}25'42''$ East, 32.60 feet to a 60D Nail found for corner;
- (9) South $16^{\circ}15'53''$ West, 17.07 feet to a 60D Nail found for corner;
- (10) South $08^{\circ}14'49''$ West, 39.50 feet to a 60D Nail found for corner;
- (11) South $00^{\circ}11'47''$ West, 21.48 feet to a point for corner;
- (12) South $09^{\circ}20'09''$ West, 59.94 feet to a point for corner;
- (13) South $06^{\circ}23'21''$ West, 20.50 feet to a point for corner;
- (14) South $09^{\circ}14'39''$ West, 59.95 feet to a point for corner;
- (15) South $12^{\circ}06'37''$ West, 59.93 feet to the southwest corner of said Caselle Subdivision being in the north line of The Estates of Longhairs on Lake Conroe, plat of which is recorded in Cabinet H, Sheets 92B, 93A, 93B, and 94A M.C.M.R.;
- (16) THENCE North $77^{\circ}54'11''$ West, 1252.50 feet to a 3/4-inch iron pipe found for the northwest corner of said The Estates of Longhairs on Lake Conroe;
- (17) THENCE North $12^{\circ}00'34''$ East, 507.56 feet to a 1/2-inch iron rod found for the southwest corner of said called 37.564 acre tract;
- (18) THENCE South $77^{\circ}53'49''$ East, with the south line of said called 37.564 acre tract, 1165.31 feet to the POINT OF BEGINNING, and containing 13.90 acres of land.

235.49 ACRES + 22.52 ACRES + 15.90 ACRES = 329.91 ACRES

EDMINSTER, HINSBRAW, RUSS AND ASSOCIATES, INC.


 Charles Kennedy, Jr., R.P.L.S.
 Texas Registration No. 5708
 10555 Westoffice Drive
 Houston, Texas 77042
 713-724-4500



Date: Oct. 27, 2012
 Job No: 125-043-00
 File No: H:\2007\071-018-00\docs\technical\ssr\MUD 126 with Annex 13 acres.doc

E-FILED FOR RECORD
08/23/2014 10:48AM

Mark Tumbull

COUNTY CLERK
MONTGOMERY COUNTY, TEXAS

STATE OF TEXAS
COUNTY OF MONTGOMERY
I hereby certify this instrument was e-FILED in
file number sequence on the date and at the time
stamped herein by me and was duly e-RECORDED in
the Official Public Records of Montgomery County, Texas.

08/23/2014



Mark Tumbull

County Clerk
Montgomery County, Texas

EXHIBIT "E"
COMPROMISE AND SETTLEMENT AGREEMENT

**COMPROMISE AND SETTLEMENT, MUTUAL RELEASE, AND AMENDMENT AND
RESTATEMENT OF OPERATIONS AND MAINTENANCE AGREEMENT**

This Compromise and Settlement, Mutual Release, and Amendment and Restatement of Operations and Maintenance Agreement (the "Agreement") is entered into effective as of January 1, 2016 (the "Effective Date") by and among MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126, a body politic and corporate and a governmental agency of the State of Texas organized under the provisions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54, Texas Water Code, as amended (the "District"), AQUA OPERATIONS, INC., a Delaware corporation ("Aqua Operations"), AQUA DEVELOPMENT, INC., a Texas corporation ("Aqua Development"), and AQUA TEXAS, INC., a Texas corporation (Aqua Operations, Aqua Development, and Aqua Texas sometimes referred to collectively herein as "Aqua".) (The District, Aqua Operations, Aqua Development, and Aqua Texas sometimes referred to individually herein as a "Party" and collectively herein as "Parties".)

RECITALS

WHEREAS, pursuant to that certain Operations and Maintenance Agreement dated January 18, 2008 (but effective pursuant to its terms on December 10, 2013), by and between David B. Hendricks ("Hendricks") and Houston Intercontinental Trade Center, Ltd., a Texas limited partnership ("HITC") (Hendricks and HITC referred to collectively herein as "Developer"), on behalf of the then-proposed District, Aqua Operations and Aqua Development, as subsequently assigned to the District pursuant to that certain Assignment of Operations and Maintenance Agreement between Developer, Aqua Operations and Aqua Development dated December 10, 2013 (the "Operations Agreement"), a copy of which is attached hereto as Exhibit "A", Aqua Texas currently provides operations, maintenance, and management services to the District; and

WHEREAS, Aqua Operations, Aqua Development, and Aqua Texas are affiliated entities; and

WHEREAS, as of the date the Operations Agreement was executed (January 18, 2008), Aqua Development was the holder and owner of a water Certificate of Convenience and Necessity No. 12902 and a sewer Certificate of Convenience and Necessity No. 20867 issued by the Texas Natural Resource Conservation Commission (now known as the Texas Commission on Environmental Quality ["TCEQ"]) on August 7, 2000, which granted to Aqua Development the exclusive right to provide retail water and sewer services to the area covered by such Certificates of Convenience and Necessity, which area includes certain land located within the boundaries of the District; and

WHEREAS, on June 4, 2010, Aqua Development filed an application with the Public Utility Commission of Texas (the "PUC") to assign water Certificate of Convenience and

Necessity No. 12902 and sewer Certificate of Convenience and Necessity No. 20867 to Aqua Texas, which assignment was completed on March 12, 2012 with the issuance of water Certificate of Convenience No. 13203 and sewer Certificate of Convenience and Necessity No. 21065 (collectively referred to herein as the "CCNs") to Aqua Texas, granting to Aqua Texas the exclusive right to provide retail water and sewer services to the area covered by the CCNs, including the aforementioned land located within the boundaries of the District; and

WHEREAS, pursuant to Article V of the Operations Agreement, Aqua Development agreed to take any and all action required to either release the approximately 175 acres of land located within the boundaries of the District and the certificated areas of the CCNs (the "CCN Property") from the certificated area of the CCNs or, at the option of the Developer or its successor under the Operations Agreement, to assign all rights, title, and interests in and to the CCNs relative to the CCN Property to the Developer or its successor under the Operations Agreement; and

WHEREAS, the District, as successor to the Developer under the Operations Agreement, desires that Aqua Texas, as the successor in ownership of the CCNs, assign all rights, title, and interests in and to the CCNs relative to the CCN Property to the District as soon as possible; and

WHEREAS, the initial term of the Operations Agreement is twenty-five (25) years and, pursuant to Article VI of the Operations Agreement, said initial term commenced on December 10, 2013 upon the assignment of the Operations Agreement by the Developer to the District; and

WHEREAS, during the first two (2) years of the initial term of the Operations Agreement, various disputes have arisen between the District and Aqua concerning the standard of performance of operations, maintenance, and management services provided to the District by Aqua Operations; and

WHEREAS, in the interest of compromise and settlement of said disputes, the District and Aqua desire to amend and restate the terms of the Operations Agreement, whereby Aqua will cease providing operations, maintenance, and management services to the District, the Parties will release each other from prior claims under the Operations Agreement, and Aqua will assign the CCNs rights relative to the CCN Property to the District in consideration for certain compensation, all as more specifically set forth herein below.

AGREEMENT

NOW, THEREFORE, FOR AND IN CONSIDERATION OF the mutual obligations hereinafter set forth and for the above recited purposes and other good and valuable consideration, the sufficiency of which the Parties acknowledge, the Parties hereby agree as follows:

Section 1. Incorporation of Recitals. The recitals set forth above are true and correct and are incorporated herein for all purposes.

Section 2. Entire Agreement. This Agreement, which amends and restates in its entirety the Operations Agreement as of the Effective Date, shall constitute the sole and only agreement of the Parties and shall supersede any prior understanding or written or oral agreements between the Parties respecting the within subject matter, which are of no further force or effect.

Section 3. General Statement of Intent. The District and Aqua hereby acknowledge that, at the present time, Aqua has the exclusive right to provide retail water and sewer services to the CCN Property within the District. The District acknowledges that it could not provide water supply and wastewater treatment services to the CCN Property without Aqua's assignment to it of the CCNs relative to said CCN Property or the release of the CCN Property from the certificated area of said CCNs. The District and Aqua hereby acknowledge that the consideration provided to Aqua pursuant to this Agreement shall effectively constitute the purchase price for the CCN rights relative to the CCN Property.

Section 4. Assignment of CCN Rights Relative to the CCN Property. In consideration for the compensation to be paid by the District to Aqua as set forth in Section 15 of this Agreement, Aqua agrees that it shall take any and all action required, at its sole cost and expense and at no cost to the District, to complete the assignment to the District of all rights, title, and interests in and to the CCNs relative to the CCN Property (the "Assignment") as soon as reasonably possible. Aqua shall properly file the application for the Assignment (the "Application") within sixty (60) days of the Effective Date of the Agreement, and shall diligently monitor and pursue the approval of said Application at the earliest possible time. In connection therewith, Aqua shall respond timely to any and all requests from the PUC relative to the Application and the Assignment, and shall further take any and all actions required of it to ensure the timely and successful approval of said Application and Assignment by the PUC.

In order to facilitate completion of the Assignment, the District agrees to provide any existing records or documents reasonably available to the District which may be reasonably required by Aqua or the PUC relative to the Application or the Assignment.

Section 5. Operations, Maintenance, and Management Services. As of the Effective Date hereof, Aqua shall cease providing operations, maintenance, and management services to the District and shall have no further obligations under Article II, Article IV, or Article V, Section (A)(1) of the Operations Agreement. Aqua hereby acknowledges that the District will, as of the Effective Date, employ another entity or entities during the Term (as defined below) of this Agreement to perform such services (the "New Operator") on the District's behalf. Aqua shall work in good faith and use all reasonable efforts to assist the District and the New Operator in this transition. Accordingly, Aqua agrees to provide the District and the New Operator with

any and all records in its possession concerning the operation, maintenance, and management of the District's system as soon as reasonably possible following the execution of this Agreement.

Section 6. Release of Aqua. The District, for itself and on behalf of its past and present successors and assigns and all other persons, natural or corporate, in privity with them, or any one of them, separately or severally, hereby releases, acquits, and forever discharges Aqua, its officers, directors, legal representatives, personal representatives, agents, consultants (including its attorneys, auditors, and bookkeepers), insurers, successors and assigns, and all persons, natural or corporate, in privity with them, or any one of them, separately or severally, from any and all claims, debts, demands, contracts, agreements, damages (including consequential damages, damages related to loss of business opportunity or business interruption, or damages related to loss of reputation), attorney's fees, costs, actions, causes of action, or any other liabilities of any kind whatsoever, both in law or in equity, whether based upon tort, contract, extra contractual claims, implied or express agreements, or any other theory of recovery, including contribution and indemnification, whether known or unknown, that are based upon, or in any way arise from, or is in any way related to, whether directly or indirectly, Aqua's obligations under the Operations Agreement, related to the period from January 18, 2008 to December 31, 2015 (the "**Relevant Period**"). Without limitation, this release shall include all claims against Aqua which could, should, or might have been, or be in the future, asserted by the District that are in any way related to Aqua's obligations under the Operations Agreement related to the Relevant Period. However, nothing in this Agreement shall be construed to release Aqua from any of its obligations relative to **Section 4** herein until the Assignment is complete.

Section 7. Release of the District. Aqua, for itself and on behalf of its past and present successors and assigns and all other persons, natural or corporate, in privity with them, or any one of them, separately or severally, hereby releases, acquits, and forever discharges the District, its officers, directors, legal representatives, personal representatives, agents, consultants (including its attorneys, auditors, and bookkeepers), insurers, successors and assigns and all persons, natural or corporate, in privity with them, or any of them, separately or severally, of and from any and all claims, debts, demands, contracts, agreements, damages (including consequential damages, damages related to loss of business opportunity or business interruption, or damages related to loss of reputation), attorney's fees, costs, actions, causes of action, or any other liabilities of any kind whatsoever, both in law or in equity, whether based upon tort, contract, extra contractual claims, implied or express agreements, or any other theory of recovery, including contribution and indemnification, whether known or unknown, that are based upon, or in any way arise from, or is in any way related to, whether directly or indirectly, the District's obligations under the Operations Agreement related to the Relevant Period. Without limitation, the foregoing shall include all claims against the District which could, should, or might have been, or be in the future, asserted by Aqua that are in any way related to the District's obligations under the Operations Agreement related to the Relevant Period.

Section 8. Future Claims. Nothing herein shall be construed to release any Party from liability for any action (or inaction) that occurs on or after the Effective Date and that constitutes a breach of this Agreement.

Section 9. No Assignment of Claims. As a further material inducement to each Party to enter into this Agreement, the District and Aqua warrant, each to the other, that no assignment, transfer, conveyance, or other disposition of any claims, demands, causes of action, obligations, damages and liabilities described above has been made, and that each Party is fully entitled to give its full and complete release of all such claims and demands.

Section 10. Denial of Liability. This Agreement constitutes a compromise and settlement of disputed claims. This Agreement shall not constitute or be construed as an admission of any liability or fault by any Party hereto, all such liability being herein expressly denied. Further, this Agreement shall not be construed as an admission of the truth or correctness of any claim asserted by any Party hereto.

Section 11. Representations and Warranties of the District. The District hereby expressly warrants and represents to Aqua that:

A. The District is legally competent and fully authorized to enter into the agreements and obligations in this Agreement and to execute this Agreement in the capacity or capacities in which this Agreement has been executed and no other action, approval, authorization, or signature is necessary or required in connection therewith;

B. The District's execution of this Agreement in the capacity or capacities so executed will not violate any provision of any instrument to which the District is bound or, to the best of the District's knowledge and belief, any applicable laws, statutes, or regulations by which the District is bound;

C. The District has read and understands this Agreement, and has had the advice or the opportunity to seek the advice of its attorneys with regard to the legal consequences of this Agreement; and

D. No promise or representation of any kind has been expressed or implied to the District by Aqua or by anyone acting on behalf of Aqua, except as is expressly stated in this Agreement.

The District expressly acknowledges and understands that the representations and warranties set forth above have been made as a material inducement to Aqua to enter into this Agreement, and that Aqua would not have entered into this Agreement but for each of such representations and warranties being made.

Section 12. Representations and Warranties of Aqua. Aqua hereby expressly warrants and represents to the District that:

A. Aqua is legally competent and fully authorized to enter into the agreements and obligations in this Agreement and to execute this Agreement in the capacity or capacities in which this Agreement has been executed and no other actions, approvals, authorizations, or signatures are necessary or required in connection therewith;

B. Aqua is the owner of the CCNs and has the legal authority to prepare, submit and pursue to completion the Application and Assignment of the CCNs to the District;

C. As of the Effective Date of this Agreement, the CCNs cover all of the CCN Property described herein;

D. Neither Aqua nor any entity related to Aqua owns any Certificate of Convenience and Necessity affecting the CCN Property other than the CCNs;

E. Aqua's execution of this Agreement in the capacity or capacities so executed will not violate any provisions of any contracts, agreements, partnership agreements, partnership resolutions, or any such incorporations, bylaws, board resolutions, or any such other instruments to which Aqua is bound or any applicable laws, statutes, or regulations by which Aqua is bound;

F. Aqua has read and understands this Agreement, and has had the advice or the opportunity to seek the advice of its attorneys with regard to the legal consequences of this Agreement; and

G. No promise or representation of any kind has been expressed or implied to Aqua by the District or by anyone acting on behalf of the District, except as is expressly stated in this Agreement.

Aqua expressly acknowledges and understands that the representations and warranties set forth above have been made as a material inducement to the District to enter into this Agreement, and that the District would not have entered into this Agreement but for each of such representations and warranties being made.

Section 13. Survival. The representations, warranties, and covenants set forth in Section 6, Section 7, Section 9, Section 11, and Section 12 herein shall be deemed to be material and continuing, shall not be merged, and shall survive any termination of this Agreement.

Section 14. Term. The term of this Agreement shall commence on the Effective Date and end on November 30, 2038 (the "Term").

Section 15. Compensation for CCN Rights. In consideration for Aqua's Assignment to the District of its CCN rights relative to the CCN Property, as described in Section 4 herein, the District shall pay Aqua \$10.00 per Connection per month (the "Monthly Rate") on or about the fifteenth (15th) day of each month of the Term of this Agreement (the "Monthly Payment").

except as otherwise specifically set forth in this Agreement. The term "Connection" shall mean each separate connection made to the District's water distribution and sanitary sewer collection system (collectively constituting one (1) Connection) from a completed residential or commercial structure that is habitable and capable of receiving water and sanitary sewer services, whether said services are then being utilized or not; provided, however, that no residential or commercial structure shall be deemed to be a Connection until the District has actually commenced providing said services to such structure.

With each Monthly Payment, the District shall submit to Aqua a copy of the previous month's Operator's Report as presented at the District's regular monthly meeting of the Board of Directors of the District, which shall include the total number of Connections used to calculate Aqua's compensation hereunder.

Section 16. Initial Payment. Notwithstanding any provision herein to the contrary, the District shall not be obligated to make any payment to Aqua under this Agreement until Aqua has completed the Assignment to the District of its CCN rights relative to the CCN Property as described in Section 4 herein (the "Interim Period"). Monthly Payments payable to Aqua hereunder shall accrue during the period between the Effective Date and the date on which Aqua completes its obligation under Section 4 herein, without interest, and shall be paid by the District to Aqua in one single payment (the "Initial Payment"). During the Interim Period, the District shall set aside the amounts that would be due to Aqua as Monthly Payments each month and shall hold all such amounts to be paid collectively as the Initial Payment. The District shall pay the Initial Payment to Aqua within 30 days after the first meeting of the District's Board of Directors occurring after Aqua has completed the assignment to the District of its CCN rights relative to the CCN Property. Thereafter, Monthly Payments shall be paid as set forth in Section 15 above.

Section 17. Late Payment. The District agrees to pay interest to Aqua at the maximum rate that may be charged to a political subdivision under Texas Government Code § 2251.025, not to exceed ten percent (10%) per annum, for all amounts remaining unpaid forty-five (45) days after the applicable due date. Interest shall accrue from the forty-sixth (46th) day following the date payment is due until the date payment in full is made. Further, in the event of a dispute or disagreement between Aqua and the District concerning any amounts payable by the District to Aqua hereunder, no interest charges shall begin to accrue until the thirty-first (31st) day following the date of final resolution of said dispute.

Section 18. Accelerated Payment. At any time during the Term of this Agreement, the District, at its sole option, may terminate this Agreement by paying Aqua the "Accelerated Payment" (defined below). The Accelerated Payment is intended to compensate Aqua for the remaining value of the CCN rights assigned to the District, and equates to Aqua's projected stream of revenues remaining through the Term of this Agreement, as described herein,

discounted back to the effective date of said termination. The Accelerated Payment may be paid by the District from any lawfully available funds of the District.

The "Accelerated Payment" shall be calculated by multiplying the number of then-current Connections within the District, plus the number of Remaining Projected Connections (defined below), by 50% of the Monthly Rate, and then multiplying said figure by the number of months remaining under the Term of this Agreement, and discounting said total sum back to the effective date of termination. The "Remaining Projected Connections" shall be calculated by subtracting the number of then-current Connections from the total number of projected Connections within the District, which shall be the greater of the actual number of platted lots within the District when the calculation is performed or the projected ultimate number of platted lots within the District based upon the most recent engineering report submitted by the District to the TCEQ. For purposes of this calculation, the Remaining Projected Connections shall be assumed to become active Connections, in equal amounts, over the next five (5) year period, commencing on January 1 of the year following the year of termination. In other words, if 300 Remaining Projected Connections then exist, it shall be assumed that said Remaining Projected Connections will become active Connections for the purpose of calculating the Accelerated Payment hereunder at the rate of sixty (60) Connections per year, commencing on January 1 of the year following the year of termination.

The total projected revenues remaining through the Term of this Agreement as calculated herein shall then be discounted back to the effective date of termination using bankers days and the yield of the U.S. Treasury Bill, Note or Bond that is commonly quoted by a nationally recognized publication or website and which is of a maturity that most closely matches the remaining number of years of the Term of this Agreement (the "Discount Rate"). The Discount Rate shall be established as of the first day of the month in which the Parties determine that the calculation of the Accelerated Payment must be performed.

Since the District may be required to sell bonds to generate the funds required to pay the Accelerated Payment, the District shall have one (1) year from the effective date of the termination of this Agreement to make such payment to Aqua. Aqua shall be entitled to earn interest on the unpaid amount of the Accelerated Payment from the effective date of the termination of the Agreement to the date of full and final payment of the Accelerated Payment at the Discount Rate established above.

The Payment to Aqua of the Accelerated Payment pursuant to this Section 18 shall constitute full and final payment of any and all amounts owed to Aqua by the District pursuant to this Agreement, and Aqua hereby agrees to execute any reasonable documentation requested by the District to evidence same, including a mutual termination of this Agreement or an appropriate release relative thereto.

Section 19. Remedies. This Agreement is not intended to specify (and shall not be considered as specifying) an exclusive remedy for any future default, but all remedies, existing at law or in equity, including, without limitation, specific performance and mandamus of Aqua's obligation pursuant to Section 4 hereinabove and the District's obligations herein, may be availed of by either Party and shall be cumulative.

Section 20. No Modification of Prior Invoices. Unless otherwise agreed by the Parties subsequent to the Effective Date hereof, the Parties agree that there shall be no modification of any prior invoices or amounts due from the District to Aqua for services rendered prior to the Effective Date of this Agreement. All outstanding invoices for services provided by Aqua to the District prior to the Effective Date of this Agreement shall be presented to the District by Aqua on or before January 14, 2016.

Section 21. Amendment. No alteration, modification, or amendment of this Agreement shall be made except in writing and signed by the District and Aqua Texas.

Section 22. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of each of the Parties hereto and their respective successors and assigns. However, each of the Parties shall be given thirty (30) days written notice of any assignment of this Agreement by any Party hereto.

Section 23. Texas Law Venue. This Agreement shall be construed under and governed by the laws of the State of Texas and venue shall be in a court of appropriate jurisdiction in Montgomery County, Texas.

Section 24. Captions. The section headings or paragraph captions herein are used for convenience of reference only and not intended to define, extend, or limit any provision of this Agreement.

Section 25. Counterparts. This Agreement may be executed in any number of counterparts, and such counterparts may be transmitted by facsimile or electronic mail, all of which counterparts when together shall constitute but one and the same instrument and shall be binding upon the Parties, notwithstanding that one Party or the other may not be a signatory to the same counterpart.

Section 26. Severability. If any provision of this Agreement shall be held invalid or unenforceable in any respect, such invalid or unenforceable provision shall be deemed severed herefrom and the balance of this Agreement shall remain in full force and effect and not be affected thereby.

Section 27. Notice. Any notice or demand required or permitted to be given under the terms of this Agreement shall be given in writing by certified or registered mail and addressed to

the Party for whom intended at its then address of record and such notice shall be deemed to have been given when the notice is mailed.

Notices required to be given to Aqua shall be addressed to:

Aqua Texas, Inc.
1106 Clayton Lane, Suite 400W
Austin, Texas 78723
Attention: Robert L. Laughman, President

Notices required to be given to the District shall be addressed to:

Board of Directors
Montgomery County Municipal Utility District No. 126
c/o Schwartz, Page & Harding, L.L.P.
1300 Post Oak Boulevard, Suite 1400
Houston, Texas 77056
Attention: Abraham Rubinsky

Section 28. Waiver of Governmental Immunity. The District and Aqua agree that this Agreement constitutes an agreement for providing goods and services to the District and is subject to the provisions of Subchapter I of Chapter 271, Texas Local Government Code, as amended, and any successor statute(s), as and if in effect. In accordance with Sections 271.152 and 271.153 thereof, to the extent limited, however, by the provisions thereof, the District hereby waives any constitutional, statutory or common law right to sovereign or governmental immunity from liability or suit and expressly consents to be sued and liable to the extent necessary for the Aqua to enforce this Agreement, but only as to Aqua and this Agreement.

IN WITNESS WHEREOF, Aqua Operations, Aqua Development, Aqua Texas and the District have each caused this Agreement to be executed by their duly authorized officers in multiple counterparts, each of which shall be deemed an original, as of the date specified below:

[SIGNATURE PAGES FOLLOW]

AGREED TO and ACCEPTED this 31st day of December, 2015, by:

AQUA OPERATIONS, INC.,
a Delaware corporation,

By: 

Name: Robert L. Laughman

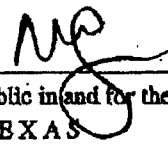
Title: President

"Aqua Operations"

THE STATE OF TEXAS §

COUNTY OF Montgomery §

This Agreement was acknowledged before me on this 31st day of December, 2015, by Robert L. Laughman, President of Aqua Operations, Inc., a Delaware corporation, on behalf of said corporation


Notary Public in and for the
State of TEXAS

(SEAL)

AGREED TO and ACCEPTED this 31st day of December, 2015, by:

AQUA DEVELOPMENT, INC., a
Texas corporation

By: 

Name: Robert L. Laughman

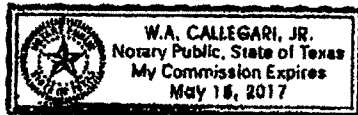
Title: President

"Aqua Development"

THE STATE OF TEXAS §

COUNTY OF Montgomery §

This instrument was acknowledged before me on this 31st day of December, 2015, by Robert L. Laughman, President of Aqua Development, Inc., a Texas corporation, on behalf of said corporation.



(SEAL)


Notary Public in and for the
State of TEXAS

AGREED TO and ACCEPTED this 31st day of December, 2015, by:

AQUA TEXAS, INC., a
Texas corporation

By: 

Name: Robert L. Laughman

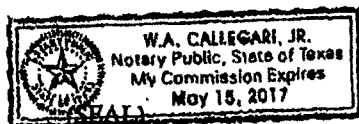
Title: President

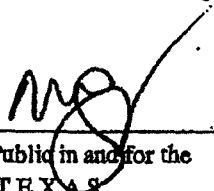
"Aqua Texas"

THE STATE OF TEXAS §

COUNTY OF Montgomery §

This instrument was acknowledged before me on this 31st day of December,
2015 by Robert L. Laughman, President of Aqua Texas, Inc., a Texas corporation, on behalf of
said corporation.




Notary Public in and for the
State of TEXAS

AGREED TO and ACCEPTED this 10th day of December, 2015, by:

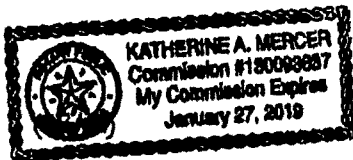
MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 126

By: 
President, Board of Directors.

"District"

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This instrument was acknowledged before me on this 10th day of December, 2015, by Gary Calfee, President of the Board of Directors of Montgomery County Municipal Utility District No. 126, a political subdivision of the State of Texas, on behalf of said political subdivision.



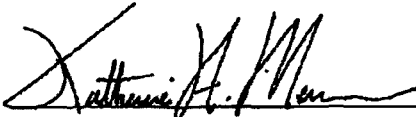

Notary Public in and for
the State of TEXAS

EXHIBIT A
Operations Agreement

**ASSIGNMENT OF OPERATIONS AND MAINTENANCE AGREEMENT BETWEEN
DAVID B. HENDRICKS AND HOUSTON INTERCONTINENTAL
TRADE CENTER, L.P. (ON BEHALF OF PROPOSED MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 126), AND AQUA OPERATIONS, INC. D/B/A AQUA TEXAS, INC.
AND AQUA DEVELOPMENT, INC.**

1. DAVID B. HENDRICKS and HOUSTON INTERCONTINENTAL TRADE CENTER, L.P., a Texas limited partnership (collectively, the "Assignors"), hereby assign unto MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126 ("Assignee"), all of their respective rights, benefits and obligations, in and to their certain Operations and Maintenance Agreement between the Assignors and Aqua Operations, Inc., doing business as Aqua Texas, Inc., and Aqua Development, Inc., dated January 18, 2008, (the "Operations Agreement").
2. This Assignment is subject to all terms and provisions of the Operations Agreement and is authorized by Article V. H of said Operations Agreement.
3. By its execution of this Assignment, Assignee accepts the terms and conditions of the Operations Agreement and agrees to assume Assignors' obligations, duties and obligations under the Operations Agreement, and Assignors are hereby released from their obligations under the Operations Agreement.

WITNESS THE EXECUTION HEREOF in multiple originals, this the 10th day of December,

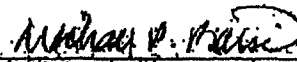
2013.



DAVID B. HENDRICKS


HOUSTON INTERCONTINENTAL TRADE
CENTER, L.P., a Texas limited partnership

By: REVISTA, Inc., a Texas corporation and its General
Partner

By: 

Michael P. Barst
President

MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 126

By 
Gary Calico, President
Board of Directors

210502_1

OPERATIONS AND MAINTENANCE AGREEMENT

THE STATE OF TEXAS

§

KNOW ALL MEN BY THESE PRESENTS THAT:

COUNTY OF MONTGOMERY

§

THIS OPERATIONS AND MAINTENANCE AGREEMENT ("Agreement") is entered into as of the 12th day of January, 2002, but shall become effective only as provided in Article VII.A. herein, by and between DAVID B. HENDRICKS ("Hendricks") and HOUSTON INTERCONTINENTAL TRADE CENTER, LTD., a Texas limited partnership ("HITC") (Hendricks and HITC sometimes referred to collectively herein as "Developer") or their respective successors or assigns, on behalf of proposed MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126, to be created as a body politic and corporate and a governmental agency of the State of Texas organized under the provisions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54, Texas Water Code, as amended (the "District"), and AQUA OPERATIONS, INC., a Delaware corporation, doing business as AQUA TEXAS, INC. ("AQUA TEXAS") and AQUA DEVELOPMENT, INC., a Texas corporation ("AQUA DEVELOPMENT"), (AQUA TEXAS and AQUA DEVELOPMENT sometimes referred to collectively herein as "AQUA", Developer, District, AQUA TEXAS and AQUA DEVELOPMENT sometimes referred to individually herein as "Party" and collectively herein as "Parties").

WITNESSETH:

1. AQUA DEVELOPMENT is the holder and owner of a water Certificate of Convenience and Necessity ("CCN") No. 12902 and a sewer CCN No. 29867 issued by the Texas Natural Resource Conservation Commission (now known as the Texas Commission on Environmental Quality ("TCEQ")) on August 7, 2000, which grants to AQUA DEVELOPMENT the exclusive right to provide retail water and sewer services to the area covered by the CCNs. AQUA TEXAS and AQUA DEVELOPMENT are affiliated entities.
2. Developer owns and intends to develop, approximately 293 acres of land in Montgomery County, Texas, including approximately 175 acres located within the certificated areas of AQUA DEVELOPMENT's CCNs (the "CCN Property"), for residential and/or commercial purposes.
3. Subject to the consent of the City of Conroe, Texas ("Conroe") and the approval of the TCEQ, and further subject to either the release of the CCN Property from the AQUA DEVELOPMENT CCNs or the assignment of the CCN rights by AQUA DEVELOPMENT to Developer relative to said CCN Property, Developer intends to create the District for the purpose of providing water, sewer and drainage services to the property within the District.

4. Conroe has proposed to extend water distribution and sanitary sewer collection lines to the District's boundary and to provide the water supply and wastewater treatment services to the District for resale to the future customers of the District.
5. Developer plans to construct, on behalf of the District, a water distribution system and a sanitary wastewater collection and transportation system (including lift stations) and storm water system (collectively, the "System") to serve customers of the District, and is desirous of obtaining services for the competent operation, maintenance, and management of the System.
6. In consideration for AQUA DEVELOPMENT's assignment to Developer of its CCN rights relative to the CCN Property, and other good and valuable consideration between the Parties as set forth herein, Developer (on behalf of the District) desires to enter into this Agreement with AQUA TEXAS to provide for the operation, maintenance and management of the System.
7. AQUA TEXAS is desirous of providing operations, maintenance, and management services to the District.
8. Developer, on behalf of the District, and AQUA are desirous of entering into a definitive agreement pursuant to which AQUA DEVELOPMENT shall relinquish its right to provide retail water and sewer services to the CCN Property and AQUA TEXAS shall operate, maintain and manage the System on behalf of the District.

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE mutual promises, benefits, covenants and considerations hereinafter set forth, the sufficiency and adequacy of which is hereby acknowledged, the Parties hereto agree as follows:

ARTICLE I. GENERAL STATEMENT OF INTENT

Developer and AQUA hereby acknowledge that, at the present time, AQUA DEVELOPMENT has the exclusive right to provide retail water and sewer services to the CCN Property that is proposed to be included within the District. Developer acknowledges that the proposed District could not provide water supply and wastewater treatment services to the CCN Property without AQUA DEVELOPMENT's assignment to it of its CCNs relative to said CCN Property or the release of the CCN Property from the certificated area of said CCNs. Developer and AQUA hereby acknowledge that the consideration provided to AQUA TEXAS pursuant to this Agreement shall effectively constitute, in addition to payment for operations, maintenance and management services provided to the District, the purchase price for the CCN rights relative to the CCN Property.

ARTICLE II SERVICES

In consideration for the compensation to be paid to AQUA TEXAS as set forth in Article III hereunder and other good and valuable consideration to AQUA TEXAS hereunder, AQUA TEXAS shall provide the following services to the District:

A. ADMINISTRATIVE SERVICES

1. Organization. AQUA TEXAS shall administer the work, activities, and operations of the System in accordance with the items in this Agreement.
2. Personnel. AQUA TEXAS shall provide competent, trained personnel. System supervisors and/or operators shall be licensed or certified by the appropriate state governmental authority. Accounting, billing, and field personnel shall be trained to be professional and courteous in dealing directly with the District's customers.
3. Training. AQUA TEXAS shall provide adequate training for all employees to ensure its personnel are qualified to provide all necessary services to the District hereunder. Specifically, all System supervisors and operators shall attend a state certified or approved water or wastewater training course at least once each year or otherwise receive a minimum of 20 hours of training each year, to the greatest extent practicable.
4. Start Up. When first assuming operations management of the System, AQUA TEXAS shall:
 - a. Enter into and maintain in an appropriate computer program all of the District's customer and Rate Order information necessary to provide monthly billings to the District's customers.
 - b. Inventory and maintain a listing of all of the System equipment, including manufacturer's model and serial numbers, motor frame numbers and other such data as required to provide immediate information for the Scheduled Maintenance Program and repair or replacement of the System equipment.
 - c. Assist the District in preparing a Rate Order and, upon request, analyze the existing Rate Order and budget for adequacy and consistency.
 - d. Assist in the preparation of an annual operating budget for the District.
5. Maintenance Scheduling. AQUA TEXAS shall utilize an appropriate program that incorporates equipment manufacturer's recommendations and the System equipment inventory and any additional directives from the Board of Directors of the District and/or the District's engineer to generate maintenance schedules. The resulting monthly schedule shall list the specific System equipment to be serviced,

the detailed service procedure, specified oil or grease to be used, if applicable, and a history of service, maintenance and replacements.

6. 24 Hour Service. AQUA TEXAS shall maintain 24 hour telephone and dispatch service with qualified personnel to respond to the System's customer problems and equipment malfunctions.
7. Automatic Telephone Alarm. AQUA TEXAS shall monitor computer or automatic dialed telephone alarm systems at any of the System facilities which are installed and programmed to call the AQUA TEXAS 24-hour telephone dispatch service.
8. Employee Identification. AQUA TEXAS' operating and maintenance employees shall be readily identifiable to the District's customers by distinctive clothing. Service vehicles shall have the AQUA TEXAS logo prominently displayed.
9. Coordination with Consultants. AQUA TEXAS shall coordinate with the District's other consultants, such as attorneys, engineers, auditors, bookkeepers, tax assessors, and financial advisors as necessary to maintain efficient operation of the System.
10. Inquiries and Correspondence. AQUA TEXAS shall respond to routine inquiries or correspondence from the District's directors, customers or consultants in a prompt and professional manner.
11. District Meetings. AQUA TEXAS' Project Manager or Field Coordinator shall attend all regularly scheduled meetings of the District's Board of Directors which have an agenda item relating to System operations. AQUA TEXAS' representative shall have direct knowledge of the System's ongoing operations or agenda items as appropriate.
12. Customer Relations. AQUA TEXAS shall render reasonable assistance in the promotion of good relations with the District's customers.
13. District Funds. All funds collected by AQUA TEXAS on behalf of the District shall be deposited in the District's Operating Fund or Account on a weekly basis or as may otherwise be directed by the District. All such funds are public funds and may be pledged to the payment of debts or other obligations of the District; therefore, AQUA TEXAS agrees that all such funds shall be deposited as provided above without setoff, counterclaim, abatement, suspension, or diminution. In connection with the foregoing, AQUA TEXAS shall maintain a bond throughout the term of this Agreement in the minimum amount of \$100,000.
14. District Records. AQUA TEXAS shall maintain records that AQUA TEXAS initiates or receives on behalf of the District in compliance with the Texas Local Government Records Act, the rules of the Texas State Library and Archives Commission adopted thereunder and all records retention schedules adopted by the District thereunder, and any applicable rules of the TCEQ.

B. BASIC SERVICES

1. System Operations. AQUA TEXAS shall provide personnel, vehicles and hand tools necessary for the routine operation of the System.
2. Meter Reading, Billing and Collection. AQUA TEXAS shall read the System water meters once each month, bill the customers in accordance with the District's Rate Order and deposit the collections in the District's Operating Account at least weekly.

The District authorizes AQUA TEXAS to make adjustments to water bills for clerical errors, over or under registration of water meters, erroneous meter readings, establishment of water usage during time when meter has been inoperative, and other similar adjustments, provided that any proposed adjustment in excess of \$100.00 shall first be approved by the District's Board of Directors.

3. System Inspection. AQUA TEXAS shall monitor the System facilities daily, including weekends and holidays as required by state regulations. Said System facilities shall include any sanitary sewer lift stations. AQUA TEXAS shall further monitor the points of connection of Conroe's facilities to the District's System and shall report immediately any problem related thereto to Conroe.

AQUA TEXAS employees, whenever they are within the District boundaries, shall monitor the System in order to observe the condition of fire hydrants, leaks, defects, and damage, and to be alert for missing System equipment.

4. Daily Maintenance. AQUA TEXAS shall provide all necessary personnel and tools required for maintenance tasks.
5. Bulk Chemicals. AQUA TEXAS shall arrange for an adequate inventory of chlorine and other bulk chemicals required to operate the System, as and if required.
6. Expendable Items. AQUA TEXAS shall replace those items expended in the daily operation of the System. Those items include, but are not limited to, brooms, mops, dip nets, rakes, shovels, trash cans, hoses, nozzles, padlocks, and other such items used at the System facilities.
7. Operating Log. AQUA TEXAS shall maintain an operating log relative to the District's System which may be inspected by the District at any time. The log shall include, but not be limited to, the following:
 - a. Notations regarding repairs or replacements performed.
 - b. Notations regarding communications with any District customer or landowner.

- c. Such other matters within the scope of AQUA TEXAS' work which the District may reasonably request.
8. **Monthly Operations Report.** AQUA TEXAS shall render a monthly operations report, to the District, which shall include substantially the following information:
- a. Correspondence to and from regulatory authorities, including Comroe, as appropriate.
 - b. Total number of water and wastewater service connections.
 - c. Records regarding equipment repairs and replacements.
 - d. Abnormal change in condition of the System equipment, needed repairs and recommendations as to the repair of such equipment.
 - e. Insurance claims filed on behalf of the District.
 - f. Regular billing and collection reports, including cash receipts, billings and receivables.
 - g. Service customers' receivables, including 30, 60, and 90 day aged accounts.
 - h. Delinquent customer report, including information on termination of water service and protests or appeals made by customers.
 - i. Summary of taps installed, inspections performed and fees collected.
 - j. Damage to the System and the possible causes thereof. In instances where the damage may be attributable to a contractor, builder, utility company or other entity, AQUA TEXAS shall (on behalf of the District) backcharge the party responsible for such damage, including administrative costs thereof, and include such information in the monthly report.
 - k. Informational reports relating to compliance status of the System.
 - l. Statistics relating to overall System operations, as appropriate.
 - m. Summary and details of monthly invoices to the District, separated into specific budget categories.
 - n. Operations and maintenance cost data to bookkeeper for use in budget comparisons.
 - o. Information and reports as may be required for audit of the District's service accounts.
 - p. Information and reports as may be required by Comroe.

- q. Report on water plant (s) and wastewater treatment plant(s) which serve the District, to the extent reasonably available.
- r. Other information reasonably requested by the District.

Details of the above reports will be available to provide a clear audit trail of the System water and sewer service transactions.

- 9. Regulatory Reports. AQUA TEXAS shall prepare and submit on a timely basis all routine reports required by regulatory authorities and authorized by the District to receive such reports and shall provide a copy of all of said reports to the District.

C. INSTALLATION AND INSPECTION SERVICES

- 1. General. All meters and installation materials shall meet American Water Works Association standards and be in compliance with applicable District, Conroe, Montgomery County, or state codes. All installation and inspection fees shall be collected from the District's customers in advance, in accordance with the District's Rate Order.

In order to allow AQUA TEXAS to accurately account for meter services installed, inspections performed and tap fees paid for each customer of the District, AQUA TEXAS shall maintain permanent records of meter services installed and tap fees paid. This shall include a plat or map, as available, which shows the location of each meter installed and each sewer inspection performed.

- 2. Standard Residential Taps. All residential water connections of one-inch (1") or less shall be installed by AQUA TEXAS for a cost of \$200.00, which shall include all labor and materials, including the water meter and any related appurtenances.
- 3. Commercial and Non-Standard Residential Taps. All commercial connections, single-family residential connections larger than one-inch (1"), and other special connections shall be installed by AQUA TEXAS for a cost equal to AQUA TEXAS' actual costs of all labor and materials, including the water meter and any related appurtenances, which shall be provided in the form of a written quote approved by the District's Board of Directors or its duly authorized representative prior to AQUA TEXAS making said tap.
- 4. Sanitary Sewer Inspections. AQUA TEXAS shall inspect, at its sole cost and expense and at no cost to the District, each sanitary sewer connection to the System to assure compliance with the District's specifications and procedures. In the event that any additional inspections of the same sanitary sewer connection are required to assure compliance with the District's specifications and procedures, AQUA TEXAS shall perform said inspection(s) and shall be compensated for same in accordance with the fee schedule set forth in Exhibit "A"

attached hereto, which may be amended from time to time upon the mutual agreement of AQUA TEXAS and the District.

5. Customer Service Inspections. AQUA TEXAS shall perform all residential and commercial customer service inspections on behalf of the District as requested or as required by the District's Rate Order and/or applicable regulations of Conroe, and shall be responsible for providing an appropriate customer service inspection certification required thereunder or pursuant to other applicable state law. AQUA TEXAS shall perform one (1) customer service inspection for each separate connection to the System, at its sole cost and expense and at no cost to the District, and shall be compensated thereafter for any additional customer service inspections required to be performed for the same customer at a location previously inspected in accordance with the fee schedule set forth in Exhibit "A" attached hereto.
6. Backflow Prevention Device Inspections. AQUA TEXAS shall perform all backflow prevention device inspections on behalf of the District as requested or as required by the District's Rate Order and/or applicable regulations of Conroe, and shall be responsible for providing any appropriate certification required thereunder or pursuant to other applicable state law. AQUA TEXAS shall perform one (1) inspection for each backflow prevention device installed within the District, at its sole cost and expense and at no cost to the District, and shall be compensated thereafter for any additional inspections required of the same backflow prevention device for the same customer in accordance with the fee schedule set forth in Exhibit "A" attached hereto.
7. Other Inspections. AQUA TEXAS shall perform such other inspections as requested or authorized by the District. Such inspections include, but are not limited to, the inspection of grease traps, sample wells, cross connections or new facilities prior to acceptance of same by the District. AQUA TEXAS may also participate in site inspections with contractors prior to the start of building activity to assist in verifying the condition of the System. AQUA TEXAS shall be compensated for said services on a "per quote" basis approved by the District's Board of Directors prior to the performance of said work.

D. MAINTENANCE, REPAIR AND REPLACEMENT SERVICES

1. Maintenance. AQUA TEXAS shall provide all personnel, tools and equipment necessary to perform maintenance on the System facilities and equipment as authorized by the District. Maintenance shall include, but not be limited to the following:
 - a. Maintenance or replacement of pumps, motors, valves and other equipment or facilities.
 - b. Calibration and servicing of instrumentation, control systems and other equipment.

- c. Other maintenance, as necessary, performed in conformance with equipment manufacturer's recommendations to maintain warranties and to extend the useful life of System equipment.
2. Repair. AQUA TEXAS shall provide all personnel and equipment necessary to perform repairs on System facilities, equipment, plants, collection and distribution systems as authorized by the District including, but not limited to, service line leaks, leaks at water meters, water main breaks, repairs to valves and fire hydrants, manhole repairs, and sewer line repair and cleaning, as needed.
3. Replacement. AQUA TEXAS shall use a reasonable degree of care with respect to replacement of System equipment or facilities but shall not be responsible to the District for any guarantees or warranties offered by others in connection with such equipment or facilities. AQUA TEXAS agrees to make reasonable efforts to obtain for and assign to the District the normal guarantees or warranties associated with any replacement equipment.
4. Maintenance, Repair and Replacement Costs. AQUA TEXAS shall be responsible for performing all routine maintenance, repair and/or replacement services described above, in addition to all other services described herein, for the compensation set forth in Article III hereunder; provided, however, that the District shall pay AQUA TEXAS for any costs related to a single maintenance, repair or replacement project performed hereunder in excess of \$2,500, based upon itemized statements and/or invoices provided by AQUA TEXAS (and any other supporting documentation reasonably requested by the District) that sufficiently describes and supports said costs. The District shall be responsible for all costs related to any non-routine maintenance, repair or replacement project performed hereunder and all damages, claims, fines and penalties arising from failure by the District, after receipt of written notice from AQUA TEXAS, to undertake capital repairs and/or replacements to the System in a timely fashion, including capital repairs and/or replacements related to any design limitations of the System, and to provide flow from and into the System at levels and characteristics within permit requirements and/or design limits.
5. Emergency Response. AQUA TEXAS shall maintain personnel and equipment for emergency response 24 hours per day, seven days per week, 365 days per year. Emergencies shall include, but not be limited to, water leaks, water line breaks, loss of water pressure, degradation of water quality, blockage in the sewage collection system, any response requested by the District or its representative or response to insistent resident concerns when necessary to maintain good District relations.
6. Materials and Supplies. Except as otherwise provided herein, AQUA TEXAS shall be reimbursed the actual cost, without markup, for all materials and supplies used to provide maintenance, repair or replacement services under this Agreement.

B. **ADDITIONAL SERVICES**

1. Infiltration/Inflow Survey. AQUA TEXAS shall conduct, with the District's prior approval, sewer line infiltration/inflow surveys consisting of on-site visual inspection of facilities, smoke testing and video monitoring (TV inspection) as appropriate. AQUA TEXAS will perform or participate in the rehabilitation of the sewer system to correct defects discovered by the infiltration/inflow survey.
2. Landscape Services. AQUA TEXAS shall provide services to maintain the landscape appearance compatible with the neighborhood at the System facilities with routine trimming and lawn mowing as requested by the Board.
3. Delinquency Notices. AQUA TEXAS shall prepare and mail delinquency notices to District customers and collect past due accounts in accordance with the District's Rate Order and policy.
4. Service Account Transfers. AQUA TEXAS shall transfer water and sewer service from the current customer to the new customer and, when requested, usage shall be prorated to each customer based on the number of days each customer received service during the billing period in which the transfer is requested.
5. Meter Disconnects/Reconnects. AQUA TEXAS shall terminate water service only in accordance with the terms of the District's Rate Order or policy, or when otherwise requested by the District's Board of Directors. Within one (1) week after service termination and periodically thereafter, AQUA TEXAS shall check the terminated service to assure that service has not been restored by unauthorized personnel.
6. Meter Removal. AQUA TEXAS shall remove a customer's water meter if service is restored by unauthorized personnel prior to the customer paying the amount owed to the District, or at the request of the District's Board of Directors.
7. Fire Hydrants. AQUA TEXAS shall thoroughly inspect the System fire hydrants at least once each year, or more frequently if requested by the District. A written report shall be submitted to the District's Board of Directors and designated fire departments as requested by the District.
8. Sampling and Testing. AQUA TEXAS shall perform, or have performed, all sampling, testing and/or analyses as required by regulatory authorities or necessary for process control. A summary of test results shall be submitted to the District each month.
9. Special Studies/Reports. AQUA TEXAS shall conduct studies or prepare special reports as may be reasonably requested by the District. The District shall compensate AQUA TEXAS for such work on the basis of a written proposal outlining the scope of the work to be performed and the cost thereof, which shall

be agreed to by the District prior to the commencement of any such work by AQUA TEXAS.

F. SUBCONTRACT SERVICES

1. AQUA TEXAS Subcontractors. AQUA TEXAS may subcontract such services hereunder as may, in AQUA TEXAS' opinion, be desirable. These services will be provided by a subcontractor retained by AQUA TEXAS and payment of the costs associated therewith shall be the sole responsibility of AQUA TEXAS. Such AQUA TEXAS subcontractors shall be considered, for the purpose of this Agreement, as employees of AQUA TEXAS with AQUA TEXAS retaining responsibility for such subcontractors' performance.
2. District Subcontractors. The District reserves the right to directly employ subcontractors for certain maintenance work within the System. AQUA TEXAS shall receive no supervision and inspection fees unless authorized by the District in advance, and shall not be responsible in any way for services performed by subcontractors employed or paid directly by the District. AQUA TEXAS shall not receive any compensation for subcontractors employed directly by the District.

ARTICLE III. COMPENSATION FOR OPERATIONS, MAINTENANCE AND MANAGEMENT SERVICES

In consideration for AQUA TEXAS' performance of all services described in Article II above, except as otherwise specifically set forth therein, the District shall pay AQUA TEXAS \$30.00 per Connection per month ("Base Rate"). The term "Connection", as used in this Article III, shall mean each separate connection made to the District's water distribution and sanitary sewer collection system (collectively constituting one (1) Connection) from a completed residential or commercial structure that is habitable and capable of receiving water and sanitary sewer services, whether said services are then being utilized or not; provided, however, that no residential or commercial structure shall be deemed to be a "Connection" for purposes of this section unless the District has collected the applicable tap fees and inspection fees associated with such Connection and has actually commenced providing said services to such structure. AQUA TEXAS shall submit a statement or invoice to the District each month reflecting the total number of Connections within the District as of the last day of the prior month, which shall serve as the basis for calculating AQUA TEXAS' compensation for the services provided to the District under Article II hereof for said month. Said statements or invoices shall also include an itemized listing of any additional fees or charges due to AQUA TEXAS for services provided during the prior month, which are authorized by this Agreement or which have been otherwise approved by the District's Board of Directors. The District shall pay such statement and/or invoice within 30 days of receipt of same. The District agrees to pay interest to AQUA TEXAS at the maximum rate that may be charged to a political subdivision under Texas Government Code § 2251.025 not to exceed 10% per annum for all amounts unpaid after 30 days. Interest shall accrue from the 31st day following receipt of statements and/or invoices until the date payment in full is made. Items awaiting backup data shall be excluded from interest charges. Further in the event

of a dispute or disagreement between AQUA TEXAS and the District concerning the legitimacy of amounts invoiced to the District by AQUA TEXAS hereunder, no interest charges shall begin to accrue until the 31st day following the date of final resolution of said dispute.

Notwithstanding the immediately preceding paragraph, AQUA TEXAS and the District agree that commencing on the first day of the month next following the Effective Date of this Agreement (as defined in Article VI A. hereinafter) and continuing until the first day of the month next following the month in which the District first begins serving 33 Connections, the District shall pay AQUA TEXAS \$1,000 per month as compensation for all services provided hereunder (the "Interim Payment"). The Interim Payment shall be made in lieu of any Base Rate that would otherwise be payable pursuant to this Article III. Thereafter, the Base Rate charged by AQUA TEXAS for the services described in Article II above shall remain fixed at \$30.00 per Connection per month and shall not be adjusted for changes in the CPI (as hereinafter defined) for a period of three (3) years. Commencing on January 1 of the year following the expiration of such three (3) year period, and continuing annually on each January 1 throughout the term of this Agreement, upon thirty (30) days' prior written notice to the District, which notice shall include evidence of such increase or decrease in the CPI (as defined below) for the relevant period, the Base Rate for the services described in Article II above shall be adjusted by the same percentage as the Consumer Price Index for All Urban Consumers (published by the United States Bureau of Labor Statistics, Consumer Price Index, U.S. City Average, All Urban Consumers, Base Period 1982-84 = 100) (the "CPI") shall have increased or decreased during the preceding twelve (12) months. The increase or decrease in the CPI shall be determined by calculating the percentage increase or decrease of such index during the prior twelve (12) month period, by determining the percentage difference between (a) the average CPI for the most recent twelve (12) months for which data is available (the "Most Recent Year"), and (b) the average CPI for the twelve (12) month period immediately prior to the Most Recent Year. In the event the U.S. Department of Labor, Bureau of Labor Statistics ceases to publish the CPI, the parties hereto agree to substitute another equally authoritative measure of change in the purchasing power of the U.S. dollar as may be then available so as to carry out the intent of this provision.

ARTICLE IV. INSURANCE AND INDEMNIFICATION

A. INSURANCE

Immediately following the execution of this Agreement and periodically thereafter upon the request of the District, AQUA TEXAS shall furnish to the District Certificates of Liability Insurance evidencing the following minimum insurance coverage:

- | | | |
|----|------------------------------------|-------------|
| 1. | Comprehensive General Liability | \$1,000,000 |
| | Bodily Injury and Property Damage | \$1,000,000 |
| 2. | Comprehensive Automobile Liability | \$1,000,000 |

	Bodily Injury and Property Damage	\$1,000,000
3.	Worker's Compensation and Employer's Liability	Statutory \$1,000,000
4.	Excess Liability	\$1,000,000
5.	Pollution Coverage	\$1,000,000

The District shall be named as an additional insured on the above policies with the exception of No. 3 above. The District shall be notified of any material change in said coverages or cancellations of policies thirty (30) days prior to the effective date of said event. AQUA TEXAS agrees that the above insurance policies will be maintained in force at all times throughout the term of the Agreement. Failure to maintain the above specified insurance policies throughout the term of this Agreement may result in termination of this Agreement by the District.

B. INDEMNIFICATION

The District, to the extent permitted by law, and AQUA TEXAS each agree to indemnify and save each other harmless from the other's negligence or intentional conduct arising or done under this Agreement and resulting in harm to another or another's property. The indemnity extends to all costs and expenses incurred, including reasonable attorney's fees, to defend against, settle or pay the claim asserted by another. In the event a claim is made by another against either the District or AQUA TEXAS, notice shall immediately be given of the claim (unless the other has prior actual notice), in order that the other may determine whether its indemnity duty must be performed and in order to allow the indemnitor to perform indemnity. It is understood and agreed that since the District is immune from damages beyond certain limits under the Texas Tort Claims Act, the mutual indemnities given by each only extend and are limited by the limits of liability of the District under such law. Notwithstanding anything to the contrary set forth herein, AQUA TEXAS shall not be liable for any claims relating to environmental damages, including any fines or penalties imposed by any regulatory authority, if not the result of or arising from, directly or indirectly, the action of AQUA TEXAS, its officers, employees, representatives or agents, including subcontractors, hereunder.

The District shall be responsible for all damages, claims, fines and penalties arising from failure by the District, after receipt of written notice from AQUA TEXAS, to undertake capital repairs and replacements to the System in a timely fashion. AQUA TEXAS shall not be liable to the District, the Developers or the District's customers for any diminution or interruption of service within the System not the result of AQUA TEXAS's gross negligence, or for any delay which results from causes beyond AQUA TEXAS's reasonable control. Under no circumstances, shall AQUA TEXAS be responsible for special, punitive, incidental or consequential damages. AQUA TEXAS will not be responsible for conditions or failures that arise due to the limitations and configuration of

the System, unless AQUA TEXAS was aware or, in the exercise of ordinary care, should have been aware of the existence of said conditions or failures.

To the extent permitted by law and subject to the limitations of the Texas Tort Claims Act, the District agrees to indemnify and save AQUA TEXAS harmless from and against any and all claims, damages, loss or liability for or on account of any injury or damages (including death) to any person or property, resulting from following the written instructions or policies of the District, from any inadequacies or failures of the System unless due to the negligence or willful misconduct of AQUA TEXAS, or by reason of any willful act or negligence on the part of the District's agents, employees or subcontractors.

In the event that any of the foregoing indemnification provisions shall be inapplicable or held unenforceable, AQUA TEXAS and the District shall each contribute to any judgment against any party for which indemnity would otherwise be due from it hereunder, according to the percentage of fault reflected in a final, non-appealable judgment with respect to such indemnifying party, in accordance with the laws of the State of Texas.

ARTICLE V. MISCELLANEOUS PROVISIONS

A. RESPONSIBILITIES

1. AQUA TEXAS Responsibilities. AQUA TEXAS shall exercise a reasonable degree of care and diligence in the operation and maintenance of the System in conformance with all applicable laws, rules and regulations, including specifically the rules and regulatory requirements of the TCEQ. However, AQUA TEXAS is not responsible for the failure of the System to meet local, state or federal wastewater treatment or disposal standards, the adequacy, quality or quantity of the water supply provided by the System or for any direct or indirect loss, injury or damage resulting from the diminution or interruption of service within the System, unless due to AQUA TEXAS' negligence or willful conduct.
2. AQUA DEVELOPMENT Responsibilities. AQUA DEVELOPMENT shall (i) not contest the Developer's (or its successors or assigns) petitions to Comroe or to the TCEQ for the creation of the District within a portion of the certificated area of its CCNs; (ii) reasonably assist the Developer (or its successors or assigns) with the creation of the District, to the extent necessary due to the location of a portion of the District within the certificated area of its CCNs; and (iii) take any and all action reasonably required, at its sole cost and expense and at no cost to Developer or the District, to either release the CCN Property from the certificated area of its CCNs or, at the option of the Developer, to assign all rights, title and interests in and to the CCNs relative to the CCN Property to the Developer (or its successors or assigns) as soon as possible following the Effective Date of this Agreement as defined in Article VI. A. below.

3. District Responsibilities. The District represents that the System is in good working order, does not contain any known defective equipment or facilities, is suitable and adequate for the needs of its customers and that all of its facilities are, or shall be, built in accordance with local, state and federal regulations. The District shall provide:

- a. All utilities, plant facilities, improvements and modifications necessary to operate the System in a manner required to meet applicable regulations; and
- b. A complete set of "As Built" drawings of the System and any improvements thereto, water and wastewater tap standards, rate schedules and any other information necessary for the administration of the System.

B. RELATIONSHIP OF THE DISTRICT AND AQUA TEXAS

AQUA TEXAS shall serve in the capacity of an independent contractor for the District during the period of this Agreement. Neither AQUA TEXAS, nor any of its employees, representatives or agents, are or shall be considered employees, representatives or agents of the District in any respect or for any purpose.

C. MONETARY AUTHORITY

If at any time a condition exists or arises which, in the opinion of AQUA TEXAS, requires repairs or replacements in the System and the estimated cost thereof exceeds the sum of \$2,500, AQUA TEXAS shall obtain the consent of a member of the Board of Directors of the District or its designated representative prior to making such repair or replacement. Notwithstanding the foregoing, however, if at any time a condition exists or arises which, in the opinion of AQUA TEXAS, is of an emergency nature and requires the immediate repair or replacement of equipment regardless of the amount, AQUA TEXAS, after reasonable attempts to obtain consent, shall proceed with such repair or replacement without the necessity of obtaining the consent of the Board of Directors of the District. The failure to obtain such consent prior to the making of such emergency repair or replacement shall not affect the obligation of the District to compensate AQUA TEXAS for any work performed.

D. FORCE MAJEURE

In the event that AQUA TEXAS or the District is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, it is agreed that each Party shall give written notice of such force majeure to the other Party as soon as possible after the occurrence of the cause relied on and shall, therefore, be relieved of its obligations, so far as they are affected by such force majeure, during the continuance of any inability so caused, but for no longer. In the event that the period of suspension shall extend longer than one hundred and eighty (180) days, either Party shall have the right to terminate this Agreement pursuant to the provisions of Article VI.B.2. hereunder. In such event, the District shall pay AQUA TEXAS compensation pursuant to this Agreement up to the date of termination. The term "force majeure," as employed herein,

shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, orders of any kind of the government of the United States or of the state or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, disturbances, explosions, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other similar or different cause not reasonably within the control of the Party claiming such inability.

B. NON-COMPENSABLE ITEMS

The compensation to be paid to AQUA TEXAS herein is exclusive of any tax, assessment, regulatory expense or other charge which may be imposed upon AQUA TEXAS by any governmental authority as a result of performing its obligations pursuant to this Agreement. In the event AQUA TEXAS is required by applicable law or regulation to pay or collect any such tax, assessment or regulatory expense or other charge on account of this Agreement or its performance hereunder, then the amount thereof shall be reimbursed to AQUA TEXAS by the District (in addition to the compensation provided herein). However, AQUA TEXAS shall be responsible at its own expense for all corporate income and franchise taxes arising out of its operations. AQUA TEXAS shall indemnify and hold the District harmless from any liability for any and all such taxes or contributions or interest or penalties for failure to pay same.

F. AMENDMENT

No alteration, modification or amendment of this Agreement shall be made except in writing and signed by the District and AQUA TEXAS.

G. NOTICE

Whenever the provisions of this Agreement require notice to be given, such notice shall be given in writing by certified or registered mail and addressed to the Party for whom intended at its then address of record and such notice shall be deemed to have been given when the notice is mailed.

Notices required to be given to AQUA TEXAS shall be addressed to:

Aqua Texas, Inc.
1106 Clayton Lane, Suite 400W
Austin TX 78723
Attention: Robert L. Laughman, President

Notices required to be given to AQUA DEVELOPMENT shall be addressed to:

Aqua Development, Inc.
1106 Clayton Lane, Suite 400W
Austin, TX 78723
Attention: Robert L. Laughman, President

Notices required to be given to Hendricks shall be addressed to:

David B. Hendricks
14405 Walters Road, Suite 800
Houston, TX 77014

Notices required to be given to HITC shall be addressed to:

Houston Intercontinental Trade Center
c/o REVISTA, Inc.
14405 Walters Rd., Suite 800
Houston, TX 77014
Attention: Michael P. Barsi, President

Notices required to be given to the District shall be addressed to:

Board of Directors
Montgomery County Municipal Utility District No. 126
c/o Schwartz, Page & Harding, L.L.P.
1300 Post Oak Boulevard, Suite 1400
Houston, Texas 77056
Attention: Abraham Rubinsky

H. ASSIGNMENT TO DISTRICT

Following the successful confirmation of the District by an election held within the boundaries of the District, this Agreement shall be assigned by Developer, or its legal successors or assigns, to the District, which assignment shall automatically be deemed to have been approved by AQUA TEXAS without further action on its part.

I. TEXAS LAW VENUE

This Agreement shall be construed under and governed by the laws of the State of Texas and venue shall be in a court of appropriate jurisdiction in Montgomery County, Texas.

J. CAPTIONS

The section headings or paragraph captions herein are used for convenience of reference only and not intended to define, extend or limit any provision of this Agreement.

ARTICLE VI TERM AND TERMINATION: ACCELERATED PAYMENT

A. TERM

The initial term of this Agreement shall be for a period of twenty-five (25) years beginning upon the "Effective Date" defined below (the "Initial Term"). The term of this Agreement shall be automatically renewed from year to year after the Initial Term, unless

terminated in the manner set forth in B. 3 below. The "Effective Date" of this Agreement shall be deemed to be the earlier of (i) the date on which the District's Board of Directors accepts the assignment of this Agreement from Developer pursuant to Article V.H. above, or (ii) the date on which the first tap is made into the District's System. The Parties agree that they shall provide formal written notification to each other of the occurrence of either of such events, which written notification shall serve to formally establish the Effective Date of this Agreement.

B. TERMINATION

1. During Initial Term Without Cause. During the Initial Term of this Agreement, the District may terminate the Agreement without cause by giving written notice of termination to AQUA TEXAS by certified or registered mail, return receipt requested, or by fax with proof of receipt by AQUA TEXAS, at least ninety (90) days prior to termination, subject to the District's payment to AQUA TEXAS of the "Accelerated Payment" described in C. below.
2. During Initial Term With Cause. During the Initial Term of this Agreement, if the District determines that AQUA TEXAS has committed a material breach of this Agreement, the District may provide written notice of said breach ("Notice of Breach") to AQUA TEXAS by certified or registered mail, return receipt requested, or by fax with proof of receipt, setting forth a reasonable description of the purported material breach. AQUA TEXAS shall commence curing such purported material breach within fifteen (15) calendar days after receipt of such Notice of Breach and shall diligently pursue and complete such cure without unreasonable cessation of activities within sixty (60) days from the date of said Notice. In the event that AQUA TEXAS fails to cure the purported material breach within such sixty (60) day period, the District shall have the right to declare AQUA TEXAS in default of this Agreement and to proceed with the termination of same provided, however, if the breach is not reasonably susceptible to cure by AQUA TEXAS within such sixty (60) day period, the District agrees that it will not declare AQUA TEXAS in default of this Agreement and will not proceed with the termination of this Agreement so long as AQUA TEXAS has diligently pursued such cure within the foregoing sixty (60) days and diligently completes the work, without unreasonable cessation, within a reasonable time thereafter. The time authorized by this Agreement to cure the breach is the "Cure Period." The District shall provide written notice to AQUA TEXAS immediately upon acceptance of the cure of any such breach. Conversely, in the event that AQUA TEXAS fails to cure a material breach of this Agreement within the Cure Period provided for herein, the District shall have the right to declare AQUA TEXAS in default of this Agreement and to proceed with the termination of this Agreement, in which event the District shall not be required to make the Accelerated Payment to AQUA TEXAS as described in C. below.

As supplemental and additional means of termination of this Agreement during the Initial Term, the occurrence of any of the following events shall cause AQUA

TEXAS to be deemed a "habitual violator", in which event the District shall be authorized to proceed with the termination of this Agreement as provided below:

(a) From January 1 to December 31 of any year, AQUA TEXAS has received four (4) separate Notices of Breach from the District pursuant to the immediately preceding paragraph that have not been cured as provided above or legitimately protected as determined by an arbitrator pursuant to this Article; or

(b) From January 1 to December 31 of any year, AQUA TEXAS has received four (4) separate notices of violation from the TCEQ or its successor relative to its operations, maintenance or management activities within the District; or

(c) AQUA TEXAS files for protection and/or requests its dissolution under the United States Bankruptcy laws; or, a final non-appealable order issued by a United States Bankruptcy Court appointing a receiver is entered against AQUA TEXAS; or AQUA TEXAS fails to maintain throughout the term of this Agreement any necessary licenses, certifications or other credentials legally required under applicable state law to provide appropriate operations, maintenance or management services to the District relative to the District's System.

In the event that AQUA TEXAS is deemed to be a "habitual violator" as defined above, the District shall thereupon issue AQUA TEXAS a final warning citing the circumstances therefore, and any single breach of this Agreement by AQUA TEXAS of whatever nature, including receipt of an additional notice of violation from the TCEQ, subsequent to the occurrence of the last of said cumulative breaches or notices referenced above, shall constitute a default by AQUA TEXAS of this Agreement and be grounds for immediate termination of the Agreement by the District, in which event the District shall not be required to make the Accelerated Payment to AQUA TEXAS as described in C. below.

Notwithstanding anything to the contrary set forth herein, in the event that the District declares AQUA TEXAS to be in default of this Agreement during the Initial Term and issues a notice of termination of the Agreement to AQUA TEXAS, and AQUA TEXAS contests said notice of termination in writing in accordance with the notice provisions of this Agreement, the District and AQUA TEXAS agree to meet, within thirty (30) days of receipt by AQUA TEXAS of said notice of termination, to negotiate in good faith and attempt to resolve any conflicts. In the event that the District and AQUA TEXAS are not able to resolve such conflict to their mutual satisfaction, the District and AQUA TEXAS agree that AQUA TEXAS' sole and exclusive remedy shall be to submit the controversy to arbitration proceedings as described in Article VII below.

Following the conclusion of any arbitration proceedings initiated under Article VII of this Agreement, if the District's position is upheld, the District shall have

the choice to either (i) require AQUA TEXAS to cure any outstanding breaches in accordance with the decision of the arbitration panel and to maintain this Agreement in force and effect, in which case AQUA TEXAS shall be responsible for paying all reasonable and verifiable costs incurred by the DISTRICT in connection with said arbitration proceedings, or (ii) terminate this Agreement thirty (30) days following the conclusion of such proceedings, or such other date as may be agreed to by the Parties or as specified in the proceedings, in which event the District shall not be required to pay AQUA TEXAS the Accelerated Payment described in C. below.

Conversely, if the District's position is not upheld, AQUA TEXAS shall have the choice to either (i) maintain this Agreement in force and effect for the remainder of the Initial Term, in which case the District shall be responsible for paying all reasonable and verifiable costs incurred by AQUA TEXAS in connection with said arbitration proceedings, or (ii) consent to the termination of this Agreement by the District and require that the District pay AQUA TEXAS the Accelerated Payment described in C. below, as and in the same manner as would be required if the Agreement was terminated without cause as described in B. 1. above. After the expiration of the Initial Term, the Accelerated Payment provisions in C. below shall no longer apply or be of any force or effect.

3. After the Initial Term. After the expiration of the Initial Term, either Party may terminate this Agreement at any time and for any reason, with or without cause, by giving written notice of termination by certified or registered mail, return receipt requested, or by fax with proof of receipt to the other Party, at least sixty (60) days prior to the effective date of termination.

C. ACCELERATED PAYMENT

In the event that the District elects to terminate this Agreement during the Initial Term (i) without cause, or (ii) with cause, but does not obtain a favorable ruling to support such termination in arbitration proceedings initiated by AQUA TEXAS pursuant to the provisions of Article VII hereunder, the District shall be required to pay AQUA TEXAS the "Accelerated Payment" described herein. The "Accelerated Payment" is intended to compensate AQUA TEXAS for the remaining value of the CCN rights assigned to Developer relative to the CCN Property to be included within the District, and equates to AQUA TEXAS' projected stream of net revenues remaining through the Initial Term of this Agreement, as described herein, discounted back to the effective date of said termination. The "Accelerated Payment" may be paid by the District from any lawfully available funds of the District.

The Accelerated Payment shall be calculated by multiplying the number of then-current Connections within the District, plus the number of Remaining Projected Connections (as defined herein), by 50% of the then-current Base Rate calculated under Article III above, and then multiplying said figure by the number of months remaining under the Initial Term of this Agreement, and discounting said total sum back to the effective date of

termination. The "Remaining Projected Connections" shall be calculated by subtracting the number of then-current Connections from the total number of projected Connections within the District, which shall be the greater of the actual number of platted lots within the District when the calculation is performed or the projected ultimate number of platted lots within the District based upon the most recent engineering report submitted by the District to the TCEQ. For purposes of this calculation, the Remaining Projected Connections shall be assumed to become active Connections, in equal amounts, over the next five (5) year period, commencing on January 1 of the year following the year of termination. In other words, if 300 Remaining Projected Connections then exist, it shall be assumed that said Remaining Projected Connections will become active Connections for the purpose of calculating the Accelerated Payment hereunder at the rate of sixty (60) Connections per year, commencing on January 1 of the year following the year of termination.

The total projected net revenues remaining through the Initial Term of this Agreement as calculated herein shall then be discounted back to the effective date of termination using bankers days and the yield of the U.S. Treasury Bill, Note or Bond that is commonly quoted by a nationally recognized publication or website and which is of a maturity that most closely matches the remaining number of years of the Initial Term of this Agreement (the "Discount Rate"). The Discount Rate shall be established as of the first day of the month in which the Parties determine that the calculation of the Accelerated Payment must be performed.

Since the District may be required to sell bonds to generate the funds required to pay the Accelerated Payment, the District shall have one (1) year from the effective date of the termination of this Agreement to make such payment to AQUA TEXAS. AQUA TEXAS shall be entitled to earn interest on the unpaid amount of the Accelerated Payment from the effective date of the termination of the Agreement to the date of full and final payment of the Accelerated Payment at the Discount Rate established above.

The Payment to AQUA TEXAS of the Accelerated Payment, plus any other compensation due to AQUA TEXAS pursuant to this Agreement up to the effective date of termination, shall constitute full and final payment of any and all amounts owed to AQUA TEXAS by the District pursuant to this Agreement, and AQUA TEXAS hereby agrees to execute any reasonable documentation requested by the District to evidence same, including a mutual termination of this Agreement or an appropriate release relative thereto.

ARTICLE VII. DISPUTE RESOLUTION REMEDIES

A. ARBITRATION

The Parties hereby agree that any controversy, dispute or claim arising out of or relating solely to the termination of this Agreement pursuant to Article VI above shall be settled by arbitration in accordance with the Commercial Rules of Arbitration of the American Arbitration Association; provided, however, that three (3) arbitrators shall be selected by the Parties, one (1) by each Party within five (5) days of submission by either Party of a

controversy for arbitration, who shall, in turn, within five (5) days of their appointment select a third arbitrator. Failure of either Party or both Parties to timely select the required arbitrators shall result in their appointment, without selection from a panel, in accordance with the Commercial Rules of Arbitration of the American Arbitration Association. Failure of the two arbitrators to timely select a third arbitrator shall be resolved by selection from a panel of arbitrators in accordance with the Commercial Rules of Arbitration of the American Arbitration Association, with the Party instituting arbitration striking first from the panel. The arbitrators to whom any controversy which is subject to arbitration under the terms of this Agreement shall be submitted, in accordance with the provisions hereof, shall have jurisdiction and authority to determine the relevant facts and to interpret and apply the applicable provisions of this Agreement in accordance with the laws of the State of Texas. Such application or interpretation of the provisions of this Agreement must conform to the spirit and letter of this Agreement. No arbitrators shall have the jurisdiction or authority to add to, take from, nullify or modify any of the terms of this Agreement, either directly or indirectly, under the guise of interpretation. The arbitrators shall be bound by the evidence submitted to them in the hearing and may not go beyond the terms of this Agreement in rendering their decision. It is further understood and agreed that the power of the arbitrators shall be strictly limited to determining the relevant facts and the meaning and interpretation of the explicit terms of this Agreement, as relate only to the termination provisions, as herein expressly set forth, and that no arbitrators shall have the power to base any decision on any alleged practices or oral understandings not incorporated herein. This provision for arbitration is made pursuant to and in accordance with Chapter 171, Texas Civil Practice and Remedies Code, as amended, and subject to the limitations described in B. below, any decision shall be subject to judicial review, as therein provided. Within their power as herein limited and upon the concurrence of any two (2) of the three (3) arbitrators, the arbitrators may enter a decision based upon any remedy available to the parties pursuant to this Agreement. All arbitration proceedings hereunder, and all judicial proceedings to enforce any of the provisions hereof, shall take place in Montgomery County, Texas, unless otherwise mutually agreed by the Parties. Any expenses incurred by either Party in connection with any such arbitration proceedings shall be adjudged equitably among the Parties by the decision of the arbitrators. The arbitrators may, within their discretion, enter a decision or award requiring the provision of deposits or security by either Party in order to insure continued compliance with the terms of this Agreement.

B. FINALITY OF DECISION; APPEAL

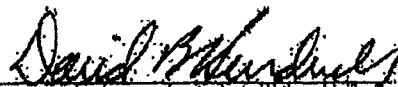
A decision made by the arbitrators shall be final, conclusive and binding on the Parties, except that judicial review may be sought by any Party based solely on any claim by a Party that the decision or award of the arbitrators exceeds their power and authority herein, provides for a remedy not available to the Parties under the terms of this Agreement or requires a Party to take any action not authorized or permitted by the Act or other law.

C. REMEDIES

Except with regard to the termination provisions of this Agreement, which shall be referred to arbitration in the event of a dispute as provided above, it is not intended hereby to specify (and this Agreement shall not be considered as specifying) an exclusive remedy for any default, but all remedies, existing at law or in equity, including specific performance and mandamus, may be availed of by either Party and shall be cumulative.

[SIGNATURES COMMENCE ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Developer (on behalf of the District), AQUA TEXAS and AQUA DEVELOPMENT have each caused this Agreement to be executed by their duly authorized officers in multiple counterparts, each of which shall be deemed an original, effective as of the date first written above.



DAVID E. HENDRICKS

HOUSTON INTERCONTINENTAL TRADE
CENTER, a Texas limited partnership

By: RHVISTA, Inc., a Texas corporation and its
General Partner

By: 

Name: Michael P. Harel
Title: President

AQUA OPERATIONS, INC., a Delaware
corporation, doing business as AQUA TEXAS,
INC.

By: 

Name: Robert L. Laughman
Title: President

AQUA DEVELOPMENT, INC., a
Texas corporation

By: 

Name: Robert L. Laughman
Title: President

EXHIBIT "A"

SCHEDULE OF FEES

The following fees or charges shall be paid to AQUA TEXAS for services provided to the District in accordance with the terms of this Agreement:

Sanitary Sewer Inspection	\$ 50.00 each
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Customer Service Inspections

Residential	\$ 50.00 each
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Commercial	Per written quote based upon size and nature of construction and extent of services required
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Backflow Prevention Device Inspections	\$ 50.00 each
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*The fees or charges set forth on this Exhibit "A" may be adjusted from time to time throughout the term of this Agreement, upon the mutual written consent of AQUA TEXAS and the District, to ensure that AQUA TEXAS is compensated fairly for the services provided consistent with the general industry standards in the Conroe, Texas area.

EXHIBIT "F"

FORM OF CONVEYANCE OF DISTRICT CONSTRUCTED FACILITIES

UTILITY CONVEYANCE AND SECURITY AGREEMENT
([Water Distribution, Wastewater Collection, and Storm Water Facilities]
to serve [Water Crest, Section ____])

STATE OF TEXAS §
 § KNOW ALL PERSONS BY THESE PRESENTS:
COUNTY OF MONTGOMERY §

This Utility Conveyance and Security Agreement is made and effective as of the _____ day of _____, 20__, by and between the City of Conroe, Texas, a home-rule city and a municipal corporation (the "City"), and Montgomery County Municipal Utility District No. 126, a body politic and corporate and a governmental agency of the State of Texas, organized under the provisions of Chapters 49 and 54, Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution (the "District").

The City and the District have entered into that certain Amended and Restated Utility Services and Development Agreement dated effective _____, 2018 (the "Utility Agreement"). Pursuant to the Utility Agreement, the District has acquired and/or constructed certain [water distribution, sanitary sewer collection, transportation and treatment, and storm water collection, detention and drainage systems] to serve lands within and adjacent to its boundaries, and all improvements, appurtenances, additions, extensions, enlargements, or betterments thereto, together with all contract rights permits, licenses, properties, rights-of-way, easements, sites, and other interest related thereto (the "Facilities"). The Facilities were constructed on behalf of the District by _____ pursuant to that certain contract dated _____, 20____. The District now desires to convey all of its right, title, and interest in and to the Facilities (except as may be otherwise set forth herein or in Exhibit "A" attached hereto) to the City in accordance with the Utility Agreement, and to reserve a security interest in the Facilities to secure the performance of the City's obligations under the Utility Agreement. The City desires to accept ownership of the Facilities subject to the security interest. The stormwater detention ponds are expressly not conveyed to the City.

Conveyance. For good and valuable consideration, including the fulfillment of the City's obligations under the Utility Agreement such as the provision of water supply and wastewater services to the District thereunder, the receipt and sufficiency of which are hereby acknowledged, the District hereby sells, conveys, transfers, and delivers to the City, its successors and assigns, free and clear of all encumbrances except the District's security interest (as specified below), the Facilities, which are presently owned by the District together with any and all of its rights, maintenance bonds, warranties and manufacturer's warranties relating to the Facilities. The Facilities being conveyed hereby are more completely described in Exhibit "A" attached hereto and in the plans and specifications for said Facilities prepared for the District by Edminster Hinshaw Russ & Associates, Inc., copies of which have been filed with the City and with the Texas Commission on Environmental Quality, and which are incorporated herein by reference, as well as any rights of the District in and to any of the sites upon which the Facilities are located.

Security Interest. The District hereby reserves (and the City grants) a security interest in the Facilities to secure performance of the City's obligations under the Utility Agreement, all as set forth in the Utility Agreement.

Duration of Security Interest. The security interest granted by the City in the preceding paragraph shall continue in full force and effect until such time as the District's obligations to make payments on bonds issued by the District to acquire and construct the Facilities have been fully paid and discharged. When all such obligations have been discharged, the District shall execute a release of the security interest in a form acceptable to the City and the District, and the City shall own the Facilities free and clear of the security interest.

Default and Remedies. The security interest reserved herein is to secure the performance by the City of its obligations under the Utility Contract. Upon default by the City, in addition to the remedies specified in the Utility Contract, the District shall have the remedies of a secured party under the Texas Business and Commerce Code and such remedies shall be cumulative. Default shall only occur if the (1) the City is in breach of its obligations under the Utility Agreement and (2) fails to cure the breach within ten (10) days from the date the City receives notice from the District reasonably describing the City's breach of the Utility Agreement. In the event of default, ownership of the Facilities shall automatically revert to the District, and the District shall have the right to take reasonable and necessary steps to facilitate the transfer of the Facilities to itself. The District may retain the Facilities in satisfaction of the City's obligations and may own and operate the Facilities thereafter for the use and benefit of the District's residents and the City shall have no authority to compel the District to sell or otherwise dispose of the Facilities. In such event, the District shall be entitled to all revenues and income from operation of the Facilities. The City may redeem the Facilities by tendering fulfillment of all its obligations under the Utility Agreement.

[SIGNATURES COMMENCE ON FOLLOWING PAGE]

EXECUTED this the ____ day of _____, 20__.

MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 126

By: _____
President, Board of Directors

THE STATE OF TEXAS §
 §
COUNTY OF _____ §

This instrument was acknowledged before me on this ____ day of _____,
20__, by _____, President of the Board of Directors of MONTGOMERY COUNTY
MUNICIPAL UTILITY DISTRICT NO. 126, on behalf of the District.

Notary Public in and for the
State of Texas

(Notary Seal)

AGREED TO AND ACCEPTED this the _____ day of _____, 20__.

CITY OF CONROE, TEXAS

ATTEST:

ACCEPTED:

By: _____
Name: _____
Title: City Secretary

By: _____
Name: _____
Title: Mayor

APPROVED AS TO FORM:

By: _____
Name: _____
Title: City Attorney

EXHIBIT "A"

Those certain water distribution, wastewater collection, and storm water collection facilities serving Water Crest, Section _____, within Montgomery County Municipal Utility District No. 126 (the "District"), together with all improvements, structures, fences, distribution lines, collection lines, storm sewer mains, water mains, flushing valves, meters, valves, pipes, fittings, connections, meter boxes, laterals, easements and rights-of-way (specifically including those listed on "Attachment "1"" hereto), licenses, operating rights and all other property therein whether real, personal, or mixed, contract rights or equipment used or useful in connection with said facilities being conveyed hereby, and being more particularly described as all such facilities installed pursuant to a contract between _____, on behalf of the District, and _____, dated _____, 20____, as further identified and described in record drawings on file in the Office of the City Secretary of the City of Conroe, Texas, for construction of the said facilities; provided, however that, notwithstanding anything hereinabove to the contrary, there is saved and excepted from the above any storm water detention ponds and systems constructed under said contract, which excepted facilities shall not be conveyed to the City hereunder, all as provided in the Utility Agreement referenced in the instrument to which this exhibit is attached.

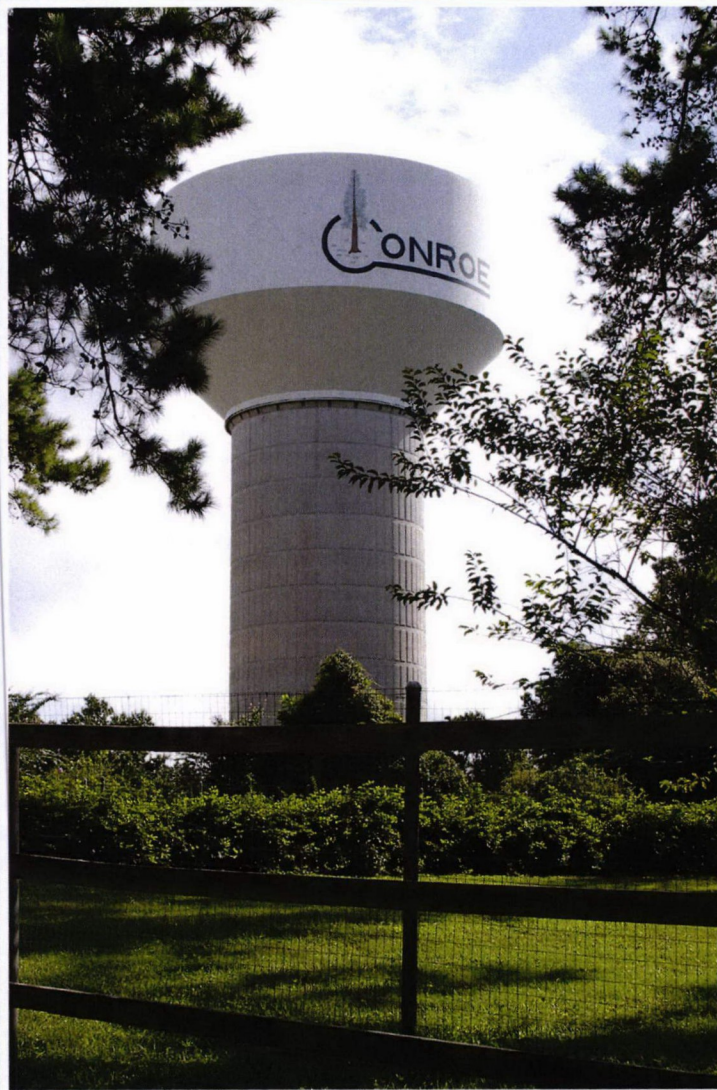
ATTACHMENT "1"

1. [Public Rights-of-Way and Utility Easements in the Water Crest Subdivision, Section _____, Montgomery County, Texas, a subdivision according to the map or plat thereof recorded in _____ of the Map Records of Montgomery County, Texas.]
2. [_____ Easement recorded in the Real Property Records of Montgomery County, Texas under Clerk's File No. _____.]

City of Conroe, Texas

Comprehensive Annual Financial Report Year Ending September 30, 2018

*"To protect and serve the citizens of Conroe
and exceed their expectations"*



CITY OF CONROE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Prepared by:
CITY OF CONROE, TEXAS
FINANCE & ADMINISTRATION DEPARTMENT
Steve Williams
Assistant City Administrator/Chief Financial Officer
Collin Boothe
Assistant Director of Finance
Cassie Smith
Accounting Manager



City of Conroe, Texas
Comprehensive Annual Financial Report
For the Year Ended September 30, 2018

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Comprehensive Annual Financial Report
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CITY OF CONROE

Est. 1904

March 21, 2019

To the Honorable Mayor and Members of the
City Council of the City of Conroe, Texas

The Comprehensive Annual Financial Report of the City of Conroe, Texas (the City) for the fiscal year ended September 30, 2018, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of their presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the City, as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. This letter of transmittal is intended to compliment the Management Discussion and Analysis (MD&A), which begins on page 15.

I. PROFILE OF THE GOVERNMENT

The City of Conroe is thirty-five miles north of downtown Houston, and is only twenty-five miles from Bush Intercontinental Airport. In addition, Conroe is the County Seat of Montgomery County, whose two most populous areas are Conroe and, to the south, The Woodlands.

The City was incorporated in 1904 and is a home rule city operating under the Mayor-Council form of government. The City Council is comprised of the Mayor and five Council members, who enact local legislation, adopt budgets, determine policies, execute the laws, and administer the government of the City. The City votes in even numbered years. Conroe voters elect the Mayor and two Council members and two years later the remaining three Council positions are filled. All council members are elected at large. Terms of office for all Council positions are for four consecutive years. Each Council member may run for two consecutive four year terms.

The Council, by adopted ordinance, has created a City Administrator position to act as the chief administrative officer of the City. The City Administrator is not appointed for a fixed time and may be removed by vote of City Council. One of the responsibilities of the City Administrator is to conduct the general affairs of the City in accordance with the policies of the City Council.

The City provides to its citizens a full range of municipal services as required by statute or charter. These services include police and fire protection, public improvements, city planning, street and drainage maintenance, recreation and parks, transportation/transit, and general administrative services. In addition to general government activities, the City provides water, sewer, and sanitation services.

Activities of City funds are included in the annually appropriated budget. The following governmental funds do not have an annual budget: Public Improvement District "PID" Assessments, Owen Theatre, Firearms Training Facility, and Woodlands Township Regional Participation. Capital project and grant funds adopt annual budgets. The City of Conroe Other Post Employment Benefit Trust Fund also does not have an annually appropriated budget.

The Assistant City Administrator/Chief Financial Officer may, at any time with the consent of the City Administrator, transfer any unencumbered appropriation from one line item to another line item within the same department. Provided, however, that no unencumbered appropriation may be transferred from one department or fund to another, except upon the express approval of the City Council. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The legal level of budgetary control (that is, the level at which expenditures may not legally exceed appropriation) is the department level.

Departmental appropriations that have not been expended by the departments lapse at the end of the fiscal year. The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbrances outstanding at year-end are voided. Remaining commitments must be re-appropriated and encumbered in the new fiscal year.

The City amends the budget on a quarterly basis. Such amendment may increase or decrease expenditures or revenues in the City's appropriated funds. Budget amendments are utilized to address unforeseen circumstances that arise outside of the normal budgeting process.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of controls should not exceed the benefits expected to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

We believe that the City's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

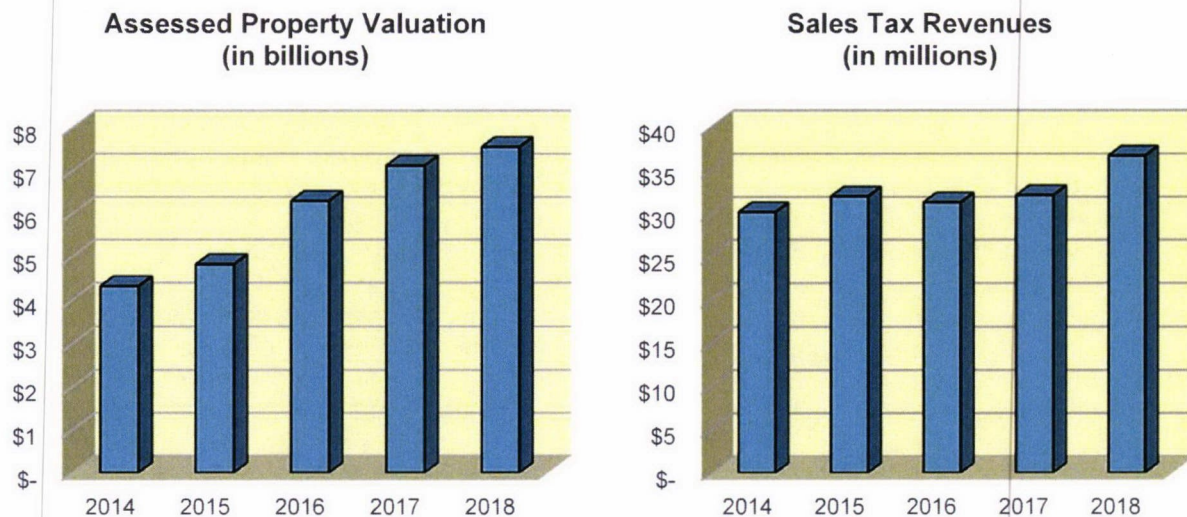
The Basic Financial Statements of the City include all government activities, organizations, and functions for which the City is financially accountable, as defined by the Governmental Accounting Standards Board (GASB).

LOCAL ECONOMY

Because of the strength of the regional and local economy, Conroe continues to experience growth in residential, commercial, and light industrial development. Conroe's estimated population for 2019 is 84,378.

The tax roll certified by the Montgomery Central Appraisal District for 2018 (FY18-19) increased by \$796,203,275 or 10.5%. New improvements and personal property accounted for approximately \$213,458,428 of this amount. Newly annexed property added approximately \$67,727,270 to the roll. This will affect revenues recorded in next year's Comprehensive Annual Financial Report (CAFR). The taxable value increase for the current fiscal year is \$429,877,666 or 6.0%.

Sales tax revenue is the largest revenue source for the City. Excluding the CIDC's portion, the City's sales tax revenue totaled \$36,720,480 for the fiscal year ending September 30, 2018. This amount represents an increase of \$4,569,322, or 14.2%, from the prior fiscal year.



The City issued 1,714 building permits for properties & improvements valued at \$361,378,166. This included 1,134 building permits for single family housing starts totaling \$210,939,793. The average single family home value, exclusive of land, was \$186,014. The City reported a total labor force of 38,816 with an unemployment rate of 3.6% as of September 2018. These data are compiled by Labor Market & Career Information (LMCI.com).

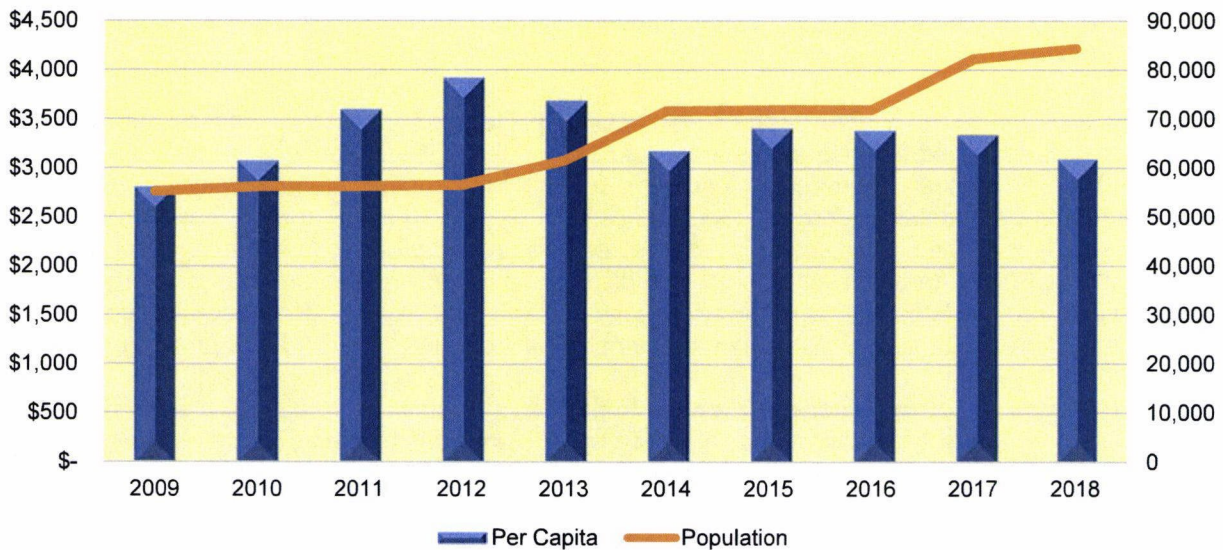
LONG-TERM FINANCIAL PLANNING

The \$26,795,709 unassigned fund balance in the General Fund is the equivalent of 140 days of expenditures. This exceeds the financial policy guidelines set by Council of maintaining at least 90 days of fund balance. The purpose of this unassigned balance is to protect the City against short-term operating deficits in the General Fund. It will be available to defer short term tax increases, cover revenue shortfalls, or cover unanticipated expenditures.

The City also studies a multi-year plan for evaluating tax rates and utility rates as they relate to debt financing for capital needs and the operating costs of providing services to citizens. Projected revenues and expenditures are forecast through September 30, 2023, in the current budget. As a result of the multi-year review, the City has been able to maintain its property tax rate of \$0.4175 per \$100 of value for FY 17-18.

Outstanding debt per capita decreased from \$3,346 in 2017 to \$3,095 in 2018. The current ratio of net general bonded debt to assessed value of all taxable property is 1.85%. The City continues to maintain its current Moody's rating of Aa1 and Standard & Poor's rating of AA+ on its Certificates of Obligation and its current Moody's rating of Aa3 and Standard & Poor's rating of AA on its Water and Sewer Revenue Bonds.

Population Growth to Outstanding Debt Per Capita



In addition, the City has recognized the long-term financial implications of its pension and retiree health benefits. Regarding pensions, the City funds the full contribution rate to the Texas Municipal Retirement System to ensure the long-term sustainability of the plan. For retiree health care, the City funded 100% of the actuarially determined contribution (ADC).

MAJOR INITIATIVES

The City has numerous capital improvement projects slated to begin or be completed in FY18-19, including: Longmire Road, M.P. Clark Road, Grace Crossing Extension, Wilson Road, Conroe Park Drive, Pollock Drive, street rehabilitation in Robinwood and Milltown, sidewalks, traffic signals, railroad crossing at Crighton Road, Fleet Services facility, and Sign Maintenance and Operations building. The City also has capital improvement projects for its water and sewer utility, including water storage tank and water well improvements, water line rehabilitations and extensions, sanitary sewer line relocations and rehabilitations, sewer lift station replacements, sanitary sewer evaluation survey, and continuation of the sanitary sewer overflow initiative. The City is also designing and constructing a new wastewater treatment plant.

The City of Conroe Transportation division has achieved continued growth in year four (FY17-18) of the new public transportation system, Conroe Connection Transit (CCT). The bus system, which consists of two (2) bus routes and a complementary ADA paratransit component, has demonstrated a steady climb in ridership and exemplary service. The department also successfully administers the county's urbanized area Section 5310 Grant Program. This Federal Transit Administration (FTA) program continues to remain competitive for the allocation of federal funds to support demand response services to seniors and persons with disabilities.

Major transportation projects include the following:

- New commuter bus service at the Conroe Park & Ride to begin service in 2019.
- Recipient of FY18 State Public Transportation Appropriations for transit operations reimbursement.
- Construction in progress of the IH-45 & SH-105 Access Management improvements.

The City is a participant in the San Jacinto River Authority (SJRA) Groundwater Reduction Plan (GRP). The SJRA constructed a surface water treatment facility and transmission system to provide treated surface water to the City. The transmission system was interconnected to the City's water system, and the City began receiving surface water in December 2015.

In August 2017, Hurricane Harvey impacted the City of Conroe. Generally, the rainfall from the hurricane caused localized flooding in the areas of Conroe below the Lake Conroe dam. On October 12, 2017, the City Council approved a resolution for the Montgomery Central Appraisal District to reappraise the properties damaged due to the hurricane pursuant to Texas Property Tax Code, Section 23.02. If property damaged in a disaster is reappraised as provided by State law, the taxes owed on the property will be prorated for the year in which the disaster occurred. Reappraisals of property resulted in lower values, the City's FY 17-18 property tax levy was lowered as well. Because the flooding was limited to certain areas, the reappraisals had a minimal impact on the City's FY 17-18 property tax levy.

Hurricane Harvey also caused extensive damage to the City's wastewater treatment plant and firearms training facility. Repairs, mitigation, and improvements to the wastewater treatment plant are near completion. Most buildings at the firearm training facility have been repaired; however, the classroom building, rifle deck, and maintenance building are still under review at this time. The City was awarded a grant through the Federal Bureau of Investigation to assist with the replacement of the classroom and berm restoration of the firearms training facility. The City is coordinating with its insurance provider, TML, as well as the Federal Emergency Management Agency (FEMA), to receive reimbursements of these costs. The City has received reimbursement from TML for many of the costs for repair and restoration, and has several claims under review with FEMA associated with mitigating property against future flooding. The City is also considering enhancing the berms protecting the properties.

The City has economic development agreements with Conroe Municipal Management District #1 regarding the development of Grand Central Park. In 2018, commercial establishments opened including a new Kroger Marketplace. As the development grows in assessed valuation and generates sales tax, the City will reimburse the district for the public infrastructure according to the development agreements in place.

The City of Conroe is committed to providing well-maintained infrastructure and a variety of quality services to protect and enhance the living conditions of its citizens.

AWARDS AND ACKNOWLEDGEMENTS

CAFR Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Conroe for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2017. This was the twelfth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and it will be submitted for consideration.

The preparation of this report was accomplished with diligence and efficiency by the entire staff of the Finance & Administration Department. I express my appreciation to all members of the Department who assisted and contributed to its preparation. I also thank the Mayor, members of the City Council, and City Administrator for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

PAFR Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for the Popular Annual Financial Reporting Award Program (PAFR) for the fiscal year ended September 30, 2017. This was the third year that the City has achieved this prestigious award. State and local governments must be able to extract information from their comprehensive annual financial report to produce a high quality popular annual financial report specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance.

Independent Audit. The City Charter requires an annual audit of the books of account, financial records, and transactions of all administrative departments of the City by an independent certified public accountant. The accounting firm of Weaver and Tidwell, LLP, was selected by the City Council. This requirement has been fulfilled, and the auditors' opinion is included in this report. Weaver and Tidwell, LLP, has issued an unmodified ("clean") opinion of the City's financial statements for the year ended September 30, 2018. Their report is located at the front of the financial section of this report.

Respectfully Submitted,

Steve Williams
Assistant City Administrator/Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Conroe
Texas**

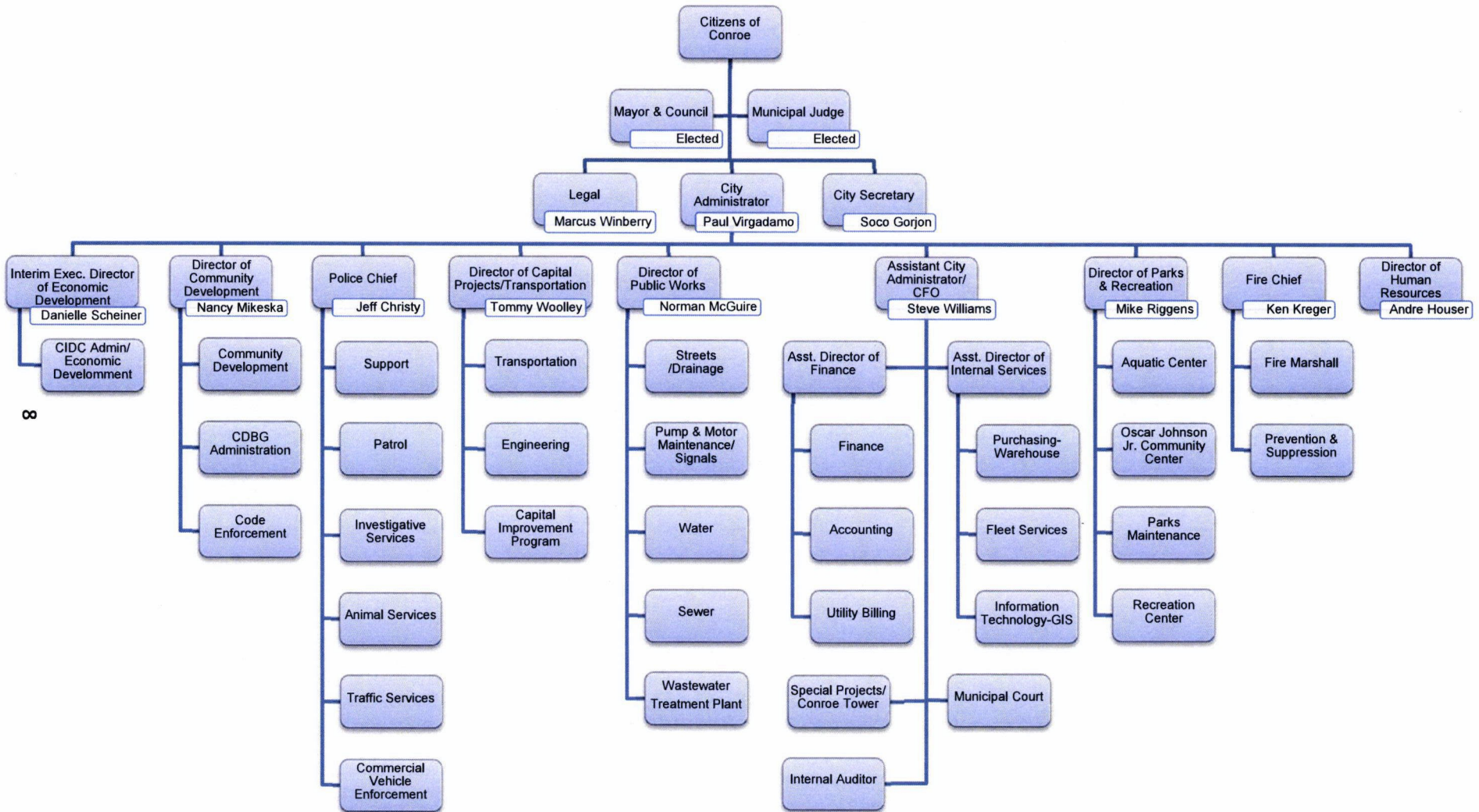
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2017

Christopher P. Morrell

Executive Director/CEO

City of Conroe, Texas Organization Chart



City of Conroe, Texas
Listing of City Officials
September 30, 2018

Elected Officials

Mayor	Toby Powell
Councilman Place 1	Duane Ham
Councilman Place 2	Seth Gibson
Councilman Place 3 - Mayor Pro Tem	Duke W. Coon
Councilman Place 4	Raymond McDonald
Councilman Place 5	Jody Czajkoski
Municipal Court Judge	Mike Davis

Appointed Officials

City Administrator	Paul Virgadamo, Jr
City Secretary	Soco Gorjon
City Attorney	Marcus Winberry
Assistant City Administrator/Chief Financial Officer	Steve Williams
Police Chief	Jeff Christy
Fire Chief	Ken Kreger
Director of Parks and Recreation	Mike Riggins
Director of Capital Projects and Transportation	Tommy Woolley
Director of Public Works	Norman McGuire
Director of Human Resources	Andre Houser
Executive Director of Conroe Industrial Development Corporation	Danielle Scheiner
Director of Community Development	Nancy Mikeska



Independent Auditor's Report

To the Honorable Mayor and
Members of City Council
City of Conroe, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Conroe, Texas (the City), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Honorable Mayor and
Members of City Council
City of Conroe, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Conroe, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note I.C. to the financial statements, during the fiscal year ended September 30, 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Beginning net position has been restated as a result of the implementation of this statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary information and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Honorable Mayor and
Members of City Council
City of Conroe, Texas

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
March 21, 2019