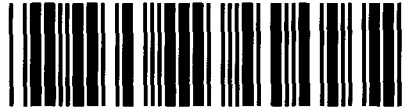




Control Number: 50659



Item Number: 9

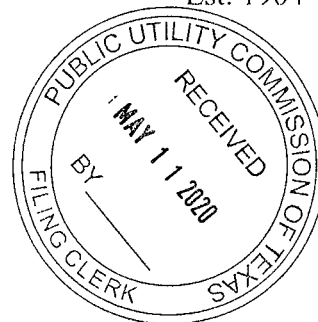
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Finance and Administration

CITY OF CONROE

Est. 1904



May 11, 2020

RE: Docket Control Number: 50659 – Item #6

Dear Sir or Madam:

Attached please find the most recent audited financial statements for Montgomery County Municipal Utility District #126 as requested for Control Number 50659 – Item Number 6.

Please contact me at cboothe@cityofconroe.org or (936) 522-3049 if you have any questions or comments

Sincerely,

Collin Boothe

Collin Boothe
Assistant Director of Finance
City of Conroe
300 West Davis Street, #210
Conroe, TX 77301

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2019

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 126 (the "District"), as of and for the year ended July 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Member of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants

Board of Directors
Montgomery County Municipal
Utility District No. 126

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of July 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

November 14, 2019

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

Management's discussion and analysis of Montgomery County Municipal Utility District No. 126's (the "District") financial performance provides an overview of the District's financial activities for the year ended July 31, 2019.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$4,234,808 as of July 31, 2019. A comparative analysis of government-wide changes in net position is presented below:

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 865,738	\$ 727,497	\$ 138,241
Capital Assets (Net of Accumulated Depreciation)	9,987,512	6,620,405	3,367,107
Total Assets	\$ 10,853,250	\$ 7,347,902	\$ 3,505,348
Due to Developer	\$ 11,948,479	\$ 7,693,156	\$ (4,255,323)
Bonds Payable	2,975,000	3,060,000	85,000
Other Liabilities	164,579	184,696	20,117
Total Liabilities	\$ 15,088,058	\$ 10,937,852	\$ (4,150,206)
Net Position:			
Net Investment in Capital Assets	\$ (4,187,089)	\$ (3,384,058)	\$ (803,031)
Restricted	277,876	270,615	7,261
Unrestricted	(325,595)	(476,507)	150,912
Total Net Position	\$ (4,234,808)	\$ (3,589,950)	\$ (644,858)

The following table provides a summary of the District's operations for the years ended July 31, 2019 and July 31, 2018.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 511,356	\$ 408,401	\$ 102,955
Charges for Services	745,081	498,496	246,585
Other Revenues	15,001	12,666	2,335
Total Revenues	\$ 1,271,438	\$ 919,563	\$ 351,875
Expenses for Services	1,916,296	929,063	(987,233)
Change in Net Position	\$ (644,858)	\$ (9,500)	\$ (635,358)
Net Position, Beginning of Year	(3,589,950)	(3,580,450)	(9,500)
Net Position, End of Year	\$ (4,234,808)	\$ (3,589,950)	\$ (644,858)

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The Districts' combined fund balances as of July 31, 2019, were \$734,717, an increase of \$154,248 from the prior year.

The General Fund fund balance increased by \$149,090, primarily due to service and property tax revenues exceeding operating and administrative costs.

The Debt Service Fund fund balance increased by \$4,973, primarily due to the structure of the District's long-term debt obligations.

The Capital Projects Fund fund balance increased by \$185.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$220,060 more than budgeted revenues due to higher than anticipated revenues across all categories with the exception of water authority fees, penalty and interest revenues and miscellaneous revenues. Actual expenditures were \$161,830 more than budgeted expenditures due to higher than anticipated costs across all categories except contracted services and purchased water service/water authority fees.

CAPITAL ASSETS

Capital assets as of July 31, 2019, total \$9,987,512 (net of accumulated depreciation) and include the water, wastewater and drainage systems. Completed capital projects in the current fiscal year included water, sewer, and drainage infrastructure for Water Crest, Sections 1, 2, 3, 4, 5 and 14, clearing/grubbing on Water Crest, Phase 1 and Forest Creek Parkway extension.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets, Net of Accumulated Depreciation:			
Water System	\$ 1,773,537	\$ 1,328,280	\$ 445,257
Wastewater System	2,356,828	1,491,547	865,281
Drainage System	5,857,147	3,800,578	2,056,569
Total Net Capital Assets	<u>\$ 9,987,512</u>	<u>\$ 6,620,405</u>	<u>\$ 3,367,107</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019

LONG-TERM DEBT ACTIVITY

As of July 31, 2019, the District had total bond debt payable of \$2,975,000. The changes in the long-term debt position of the District during the fiscal year ended July 31, 2019, are summarized as follows:

Bond Debt Payable, August 1, 2018	\$ 3,060,000
Less: Bond Principal Paid	<u>85,000</u>
Bond Debt Payable, July 31, 2019	<u>\$ 2,975,000</u>

The District's Series 2016 bonds are not rated.

CONTACTING THE DISTRICT'S MANAGEMENT

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 108,429	\$ 35,141
Investments	258,345	299,759
Receivables:		
Property Taxes	3,184	2,044
Penalty and Interest on Delinquent Taxes		
Service Accounts	61,233	
Due from Other Funds	19,887	
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	<u>\$ 451,078</u>	<u>\$ 336,944</u>
LIABILITIES		
Accounts Payable	\$ 34,117	\$ 395
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		19,887
Security Deposits	90,200	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 124,317</u>	<u>\$ 20,282</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	<u>\$ 3,184</u>	<u>\$ 2,044</u>
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		314,618
Unassigned	<u>323,577</u>	
TOTAL FUND BALANCES	<u>\$ 323,577</u>	<u>\$ 314,618</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 451,078</u>	<u>\$ 336,944</u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 104	\$ 143,674	\$	\$ 143,674
96,418	654,522		654,522
	5,228		5,228
		1,081	1,081
	61,233		61,233
	19,887	(19,887)	
		9,987,512	9,987,512
<u>\$ 96,522</u>	<u>\$ 884,544</u>	<u>\$ 9,968,706</u>	<u>\$ 10,853,250</u>
\$	\$ 34,512	\$	\$ 34,512
		39,867	39,867
		11,948,479	11,948,479
	19,887	(19,887)	
	90,200		90,200
		85,000	85,000
		2,890,000	2,890,000
<u>\$ -0-</u>	<u>\$ 144,599</u>	<u>\$ 14,943,459</u>	<u>\$ 15,088,058</u>
<u>\$ -0-</u>	<u>\$ 5,228</u>	<u>\$ (5,228)</u>	<u>\$ -0-</u>
\$ 96,522	\$ 96,522	\$ (96,522)	\$
	314,618	(314,618)	
	323,577	(323,577)	
<u>\$ 96,522</u>	<u>\$ 734,717</u>	<u>\$ (734,717)</u>	<u>\$ -0-</u>
<u>\$ 96,522</u>	<u>\$ 884,544</u>		
		\$ (4,187,089)	\$ (4,187,089)
		277,876	277,876
		(325,595)	(325,595)
		<u>\$ (4,234,808)</u>	<u>\$ (4,234,808)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JULY 31, 2019

Total Fund Balances - Governmental Funds	\$	734,717
--	----	---------

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		9,987,512
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		6,309
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (11,948,479)	
Accrued Interest Payable	(39,867)	
Bonds Payable	<u>(2,975,000)</u>	<u>(14,963,346)</u>

Total Net Position - Governmental Activities	\$	<u>(4,234,808)</u>
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The accompanying notes to the financial
statements are an integral part of this report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 316,355	\$ 192,327
Water Service	261,322	
Wastewater Service	224,808	
Water Authority Fees	130,692	
Penalty and Interest	7,506	1,219
Tap Connection and Inspection Fees	118,807	
Investment and Miscellaneous Revenues	4,780	4,607
Tax Rebate		4,688
	<hr/>	<hr/>
TOTAL REVENUES	\$ 1,064,270	\$ 202,841
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 157,738	\$
Contracted Services	45,420	14,124
Purchased Water Service/Water Authority Fees	271,318	
Purchased Wastewater Service	165,391	
Repairs and Maintenance	107,833	
Depreciation		
Other	167,480	2,213
Conveyance of Assets		
Debt Service:		
Bond Principal		85,000
Bond Interest		96,531
	<hr/>	<hr/>
TOTAL EXPENDITURES/EXPENSES	\$ 915,180	\$ 197,868
NET CHANGE IN FUND BALANCES	\$ 149,090	\$ 4,973
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - AUGUST 1, 2018	<hr/> 174,487	<hr/> 309,645
FUND BALANCES/NET POSITION - JULY 31, 2019	<hr/> \$ 323,577	<hr/> \$ 314,618

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 508,682	\$ 2,674	\$ 511,356
	261,322		261,322
	224,808		224,808
	130,692		130,692
	8,725	727	9,452
	118,807		118,807
926	10,313		10,313
	4,688		4,688
<u>\$ 926</u>	<u>\$ 1,268,037</u>	<u>\$ 3,401</u>	<u>\$ 1,271,438</u>
\$	\$ 157,738	\$	\$ 157,738
596	60,140		60,140
	271,318		271,318
	165,391		165,391
	107,833		107,833
		400,942	400,942
145	169,838		169,838
		487,273	487,273
	85,000	(85,000)	
	96,531	(708)	95,823
<u>\$ 741</u>	<u>\$ 1,113,789</u>	<u>\$ 802,507</u>	<u>\$ 1,916,296</u>
\$ 185	\$ 154,248	\$ (154,248)	\$
		(644,858)	(644,858)
<u>96,337</u>	<u>580,469</u>	<u>(4,170,419)</u>	<u>(3,589,950)</u>
<u>\$ 96,522</u>	<u>\$ 734,717</u>	<u>\$ (4,969,525)</u>	<u>\$ (4,234,808)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2019

Net Change in Fund Balances - Governmental Funds	\$	154,248
--	----	---------

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		2,674
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Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		727
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(400,942)
--	--	-----------

In the Statement of Activities, conveyance of assets to other governmental entities is recorded as an expense.		(487,273)
--	--	-----------

Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		85,000
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		708
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Change in Net Position - Governmental Activities	\$	<u>(644,858)</u>
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The accompanying notes to the financial
statements are an integral part of this report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 1. CREATION OF DISTRICT

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of July 31, 2019, the Debt Service Fund owed the General Fund \$19,887 for maintenance tax collections.

Capital Assets

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

The District chose to early implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements.

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

	<u>Years</u>
Water System	10-45
Wastewater System	10-45
Storm Drainage System	10-45

Budgeting

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

Pensions

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

Measurement Focus

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

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

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	<u>Series 2016 Road</u>
Amount Outstanding – July 31, 2019	\$ 2,975,000
Interest Rates	2.00% - 3.625%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2041
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2024*

* Or any date thereafter at a price of par plus accrued interest in whole or in part, at the option of the District. Series 2016 term bonds maturing on September 1, 2041, are subject to mandatory redemption by random selection beginning September 1, 2038.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transaction regarding bonds payable for the year ended July 31, 2019:

	August 1, 2018	Additions	Retirements	July 31, 2019
Bonds Payable	\$ 3,060,000	\$ -0-	\$ 85,000	\$ 2,975,000
		Amount Due Within One Year		\$ 85,000
		Amount Due After One Year		2,890,000
		Bonds Payable		\$ 2,975,000

As of July 31, 2019, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 85,000	\$ 94,831	\$ 179,831
2021	90,000	93,081	183,081
2022	95,000	90,994	185,994
2023	95,000	88,619	183,619
2024	100,000	86,181	186,181
2025-2029	550,000	384,905	934,905
2030-2034	650,000	291,484	941,484
2035-2039	775,000	168,160	943,160
2040-2042	535,000	29,635	564,635
	\$ 2,975,000	\$ 1,327,890	\$ 4,302,890

During the year ended July 31, 2019, the District levied an ad valorem debt service tax of \$0.34 per \$100 of assessed valuation, which resulted in a tax levy of \$193,179 on the adjusted taxable valuation of \$56,817,263 for the 2018 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

Levy Date	- October 1, or as soon thereafter as practicable.
Lien Date	- January 1.
Due Date	- Not later than January 31.
Delinquent Date	- February 1, at which time the taxpayer is liable for penalty and interest.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond order states that the District is required to provide continuing disclosure of annual financial information and operating data with respect to the District to certain information repositories. The information, along with the audited annual financial statements, is of the general type included in the annual audit report, and must be filed within six months after the end of each fiscal year of the District.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each use.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$143,674 and the bank balance was \$201,702. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at July 31, 2019, as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 108,429
DEBT SERVICE FUND	35,141
CAPITAL PROJECTS FUND	<u>104</u>
TOTAL DEPOSITS	<u>\$ 143,674</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

All investments are recorded at cost, which the District considers to be fair value. The District also invests in Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"). Texas CLASS is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. Texas CLASS is not SEC-registered. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor. Wells Fargo Bank N.A. serves as custodian of the pool. The fair value of the District's position in the pool is the same as the value of pool shares. As of July 31, 2019, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 258,345	\$ 258,345
<u>DEBT SERVICE FUND</u>		
Texas CLASS	299,759	299,759
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	96,418	96,418
TOTAL INVESTMENTS	<u><u>\$ 654,522</u></u>	<u><u>\$ 654,522</u></u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2019, the District's investments in Texas CLASS were rated "AAAm" by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in Texas CLASS to have a maturity of less than one year due to the fact the share positions can usually be redeemed at the discretion of the District, unless there has been a significant change in value.

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended July 31, 2019 is as follows:

	August 1, 2018	Increases	Decreases	July 31, 2019
Capital Assets Subject to Depreciation				
Water System	\$ 1,423,508	\$ 515,272	\$	\$ 1,938,780
Wastewater System	1,598,399	965,261		2,563,660
Drainage System	4,071,593	2,287,516		6,359,109
Total Capital Assets Subject to Depreciation	\$ 7,093,500	\$ 3,768,049	\$ - 0 -	\$ 10,861,549
Accumulated Depreciation				
Water System	\$ 95,228	\$ 70,015	\$	\$ 165,243
Wastewater System	106,852	99,980		206,832
Drainage System	271,015	230,947		501,962
Total Accumulated Depreciation	\$ 473,095	\$ 400,942	\$ - 0 -	\$ 874,037
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 6,620,405	\$ 3,367,107	\$ - 0 -	\$ 9,987,512

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 7. MAINTENANCE TAX

On May 9, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system and for any other lawful purposes. During the year ended July 31, 2019, the District levied an ad valorem maintenance tax rate of \$0.56 per \$100 of assessed valuation, which resulted in a tax levy of \$318,177 on the adjusted taxable valuation of \$56,817,263 for the 2018 tax year.

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

NOTE 8. UTILITY SERVICES AND DEVELOPMENT AGREEMENT

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

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

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

In accordance with the agreement, the District is authorized to issue bonds for the purpose of financing the construction and acquisition of the facilities. Prior to issuing any bonds, the District must provide the City with a copy of the Commission order authorizing the issuance of the bonds and such order must provide that under the Commission rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$0.90 per \$100 of assessed valuation. The agreement provides that such condition is not a limitation on the District's authority to levy an unlimited tax and that the District's bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 8. UTILITY SERVICES AND DEVELOPMENT AGREEMENT (Continued)

The agreement provides that the City will pay an annual rebate to the District. The annual rebate is equal to the total assessed value in the District for the given year multiplied by the portion of the City's tax rate that is attributable to water, sewer and drainage facilities. This annual rebate is to be deposited into the District's Debt Service Fund. During the current fiscal year, the District recorded revenue in the amount of \$4,688 per this agreement.

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

NOTE 9. UNREIMBURSED DEVELOPER COSTS

The District has executed developer financing agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, sewer, drainage and road infrastructure until such time as the District can sell bonds. An estimated \$11,948,479, including operating advances, is owed to the Developers at year end. Reimbursement to the Developers will come from future bond sales, subject to the approval of the Commission, as necessary.

NOTE 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide general liability, automobile, and errors and omissions coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 11. COMPROMISE AND SETTLEMENT AGREEMENT

Effective as of January 1, 2016, the District entered into the Compromise and Settlement, Mutual Release, and Amendment and Restatement of Operations and Maintenance Agreement (the “Compromise and Settlement Agreement”) with Aqua Operations, Inc., Aqua Development, Inc., and Aqua Texas, Inc. (collectively, “Aqua”). Pursuant to this agreement: (i) the District and Aqua amend and restate the terms of their previous Operations and Maintenance Agreement (the “Operations Agreement”), (ii) Aqua agrees to cease providing operations, maintenance, and management services to the District as previously provided under the Operations Agreement, (iii) the District and Aqua agree to release each other from all prior claims under the Operations Agreement, and (iv) Aqua agrees to transfer to the District its rights to all its Certificates of Convenience and Necessity affecting land located within the jurisdictional boundaries of the District (the “CCNs”) for certain compensation from the District (the “Compensation”).

Upon completion of the transfer of the CCNs to the District, the District must pay Aqua the Compensation at a rate of \$10.00 for each “Connection” to the District’s water distribution and sanitary sewer collection (as further defined in the Compromise and Settlement Agreement) for each month of the term of the Compromise and Settlement Agreement, ending November 30, 2038, including all months prior to the completion of the transfer of the CCNs to the District. At any time during the term of the Compromise and Settlement Agreement, the District may terminate the Compromise and Settlement Agreement by making an “Accelerated Payment” to Aqua constituting the full amount of the Compensation using a formula set forth in the Compromise and Settlement Agreement based on the number of existing “Connections,” the number of projected additional “Connections,” and the length of time remaining in the term of the Compromise and Settlement Agreement.

NOTE 12. SUBSEQUENT EVENT – BOND SALE

On September 26, 2019, subsequent to year end, the District issued its \$4,175,000 Series 2019 Unlimited Tax Bonds. Proceeds from the bonds were used to reimburse developers for: construction and engineering costs for water, wastewater and drainage facilities for Water Crest, Sections 1, 2 and 3 and Crest Royale Parkway; Water Crest, Phase 1 clearing and grubbing; storm water compliance; and developer advances. Additional proceeds were used to pay capitalized interest and issuance costs of the bonds.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2019

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2019

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 214,560	\$ 316,355	\$ 101,795
Water Service	240,700	261,322	20,622
Wastewater Service	171,900	224,808	52,908
Water Authority Fees	134,100	130,692	(3,408)
Penalty and Interest	15,000	7,506	(7,494)
Tap Connection and Inspection Fees	61,000	118,807	57,807
Investment and Miscellaneous Revenues	<u>6,950</u>	<u>4,780</u>	<u>(2,170)</u>
TOTAL REVENUES	<u>\$ 844,210</u>	<u>\$ 1,064,270</u>	<u>\$ 220,060</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 107,600	\$ 157,738	\$ (50,138)
Contracted Services	45,600	45,420	180
Purchased Water Service/Water Authority Fees	272,900	271,318	1,582
Purchased Wastewater Service	146,700	165,391	(18,691)
Repairs and Maintenance	77,700	107,833	(30,133)
Other	<u>102,850</u>	<u>167,480</u>	<u>(64,630)</u>
TOTAL EXPENDITURES	<u>\$ 753,350</u>	<u>\$ 915,180</u>	<u>\$ (161,830)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 90,860</u>	<u>\$ 149,090</u>	<u>\$ 58,230</u>
FUND BALANCE - AUGUST 1, 2018	<u>174,487</u>	<u>174,487</u>	<u>_____</u>
FUND BALANCE - JULY 31, 2019	<u>\$ 265,347</u>	<u>\$ 323,577</u>	<u>\$ 58,230</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
JULY 31, 2019

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective March 14, 2019.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 31.20	3,000	N	\$ 3.28	3,001 to 15,000
				\$ 3.89	15,001 to 25,000
				\$ 4.44	25,001 to 35,000
				\$ 7.77	35,001 and above
WASTEWATER:	\$ 32.36	3,000	N	\$ 4.50	3,001 and above
SURCHARGE:					
Lone Star GCD Fees	\$0.06 per 1,000 gallons				
SJRA Fees	\$3.15 per 1,000 gallons				

District employs winter averaging for wastewater usage?

 X
 Yes No

Total monthly charges per 10,000 gallons usage: Water: \$54.16 Wastewater: \$63.86 Surcharge: \$32.10

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>434</u>	<u>428</u>	x 1.0	<u>428</u>
1"	<u>2</u>	<u>2</u>	x 2.5	<u>5</u>
1½"	<u>2</u>	<u>2</u>	x 5.0	<u>10</u>
2"	<u>4</u>	<u>4</u>	x 8.0	<u>32</u>
3"			x 15.0	
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>444</u>	<u>438</u>		<u>525</u>
Total Wastewater Connections	<u>421</u>	<u>419</u>	x 1.0	<u>419</u>

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

Gallons pumped into system:	41,231,000	Water Accountability Ratio: 98.6% (Gallons billed, leaks and flushing/Gallons pumped)
Gallons billed to customers:	40,260,000	
Leaks and flushing:	405,000	

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely ☒ Partly ☐ Not at all ☐

City in which District is located:

Conroe, Texas.

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2019

PROFESSIONAL FEES:	
Auditing	\$ 13,250
Engineering	51,843
Legal	92,645
TOTAL PROFESSIONAL FEES	<u>\$ 157,738</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service/Water Authority Fees	\$ 271,318
Purchased Wastewater Service	165,391
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 436,709</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 20,045
Operations and Billing	25,375
TOTAL CONTRACTED SERVICES	<u>\$ 45,420</u>
REPAIRS AND MAINTENANCE	<u>\$ 107,833</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 7,350
Insurance	2,868
Office Supplies and Postage	11,330
Payroll Taxes	562
Other	841
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 22,951</u>
TAP CONNECTIONS	<u>\$ 68,596</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 6,890
Permit Fees	2,794
Reconnection Fees	3,710
Inspection Fees	28,950
Regulatory Assessment	2,312
CCN Connection Costs	28,630
Other	2,647
TOTAL OTHER EXPENDITURES	<u>\$ 75,933</u>
TOTAL EXPENDITURES	<u>\$ 915,180</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
INVESTMENTS
JULY 31, 2019

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 258,345	\$ -0-
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0002	Varies	Daily	\$ 299,759	\$ -0-
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	\$ 96,418	\$ -0-
TOTAL - ALL FUNDS				\$ 654,522	\$ -0-

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2019

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
AUGUST 1, 2018	\$	1,362	\$	1,192
Adjustments to Beginning				
Balance		\$		\$
		1,362		1,192
Original 2018 Tax Levy	\$	318,702	\$	193,498
Adjustment to 2018 Tax Levy		(525)		(319)
		318,177		193,179
TOTAL TO BE				
ACCOUNTED FOR		\$		\$
		319,539		194,371
TAX COLLECTIONS:				
Prior Years	\$	949	\$	830
Current Year		315,406		191,497
		316,355		192,327
TAXES RECEIVABLE -				
JULY 31, 2019		\$		\$
		3,184		2,044
TAXES RECEIVABLE BY				
YEAR:				
2018	\$	2,771	\$	1,682
2017		413		362
TOTAL	\$	3,184	\$	2,044

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2019

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 22,219,750	\$ 20,153,760	\$ 19,129,650	\$ 14,686,580
Improvements	37,515,520	26,159,980	16,874,410	5,300
Personal Property	599,613	551,626	93,955	
Exemptions	<u>(3,517,620)</u>	<u>(1,487,408)</u>	<u>(1,084,130)</u>	<u>(69,007)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 56,817,263</u>	<u>\$ 45,377,958</u>	<u>\$ 35,013,885</u>	<u>\$ 14,622,873</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.34	\$ 0.42	\$ 0.46	\$ 0.00
Maintenance	<u>0.56</u>	<u>0.48</u>	<u>0.44</u>	<u>0.90</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.90</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>
ADJUSTED TAX LEVY*	<u>\$ 511,356</u>	<u>\$ 408,401</u>	<u>\$ 315,125</u>	<u>\$ 131,606</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.13 %</u>	<u>99.81 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

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

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

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

<u>S E R I E S - 2 0 1 6 R O A D</u>			
Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 85,000	\$ 94,831	\$ 179,831
2021	90,000	93,081	183,081
2022	95,000	90,994	185,994
2023	95,000	88,619	183,619
2024	100,000	86,181	186,181
2025	100,000	83,431	183,431
2026	105,000	80,356	185,356
2027	110,000	77,131	187,131
2028	115,000	73,756	188,756
2029	120,000	70,231	190,231
2030	120,000	66,631	186,631
2031	125,000	62,800	187,800
2032	130,000	58,575	188,575
2033	135,000	54,103	189,103
2034	140,000	49,375	189,375
2035	145,000	44,388	189,388
2036	150,000	39,225	189,225
2037	155,000	33,888	188,888
2038	160,000	28,275	188,275
2039	165,000	22,384	187,384
2040	170,000	16,313	186,313
2041	180,000	9,969	189,969
2042	185,000	3,353	188,353
	<u>\$ 2,975,000</u>	<u>\$ 1,327,890</u>	<u>\$ 4,302,890</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
CHANGES IN LONG-TERM DEBT BOND DEBT
FOR THE YEAR ENDED JULY 31, 2019

Description	Original Bonds Issued	Bonds Outstanding August 1, 2018
Montgomery County Municipal Utility District No. 126 Unlimited Tax Road Bonds - Series 2016	\$ 3,060,000	\$ 3,060,000
Bond Authority:	Tax Bonds (Utilities)	Refunding Bonds
Amount Authorized by Voters	\$ 41,320,000	\$ 51,420,000
Amount Issued		
Remaining to be Issued	\$ 41,320,000	\$ 51,420,000
Debt Service Fund cash balance as of July 31, 2019:		\$ 334,900
Average annual debt service payment (principal and interest) for remaining term of all debt:		\$ 187,082

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding July 31, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$ <u>-0-</u>	\$ <u>85,000</u>	\$ <u>96,531</u>	\$ <u>2,975,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>Road Bonds</u>				
\$ 6,000,000				
<u>3,060,000</u>				
\$ <u>2,940,000</u>				

See accompanying independent auditor's report.

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

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 316,355	\$ 219,435	\$ 151,090
Water Service	261,322	179,840	124,344
Wastewater Service	224,808	129,826	83,460
Water Authority Fees	130,692	98,649	60,499
Penalty and Interest	7,506	11,146	4,634
Tap Connection and Inspection Fees	118,807	77,155	47,479
Investment and Miscellaneous Revenues	4,780	5,436	3,465
TOTAL REVENUES	\$ 1,064,270	\$ 721,487	\$ 474,971
EXPENDITURES			
Professional Fees	\$ 157,738	\$ 133,280	\$ 128,166
Contracted Services	45,420	36,691	34,539
Purchased Water Service/Water Authority Fees	271,318	202,264	130,237
Purchased Wastewater Service	165,391	109,541	62,537
Repairs and Maintenance	107,833	62,174	31,272
Other	167,480	108,072	106,444
Capital Outlay			
TOTAL EXPENDITURES	\$ 915,180	\$ 652,022	\$ 493,195
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 149,090	\$ 69,465	\$ (18,224)
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$ -0-	\$ 35,000	\$ 19,856
NET CHANGE IN FUND BALANCE	\$ 149,090	\$ 104,465	\$ 1,632
BEGINNING FUND BALANCE (DEFICIT)	174,487	70,022	68,390
ENDING FUND BALANCE (DEFICIT)	\$ 323,577	\$ 174,487	\$ 70,022

* First year audit.

See accompanying independent auditor's report.

		Percentage of Total Revenues					
2016	2015*	2019	2018	2017	2016	2015*	
\$ 131,594	\$ 22,157	29.7 %	30.4 %	31.8 %	29.1 %	12.0	
112,497	29,656	24.6	24.9	26.2	24.9	16.0	
53,580	12,180	21.1	18.0	17.6	11.8	6.6	
40,823	404	12.3	13.7	12.7	9.0	0.2	
8,679	1,112	0.7	1.5	1.0	1.9	0.6	
97,420	119,102	11.2	10.7	10.0	21.5	64.3	
8,047	474	0.4	0.8	0.7	1.8	0.3	
<u>\$ 452,640</u>	<u>\$ 185,085</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0</u>	
\$ 182,484	\$ 111,627	14.8 %	18.5 %	27.0 %	40.3 %	60.3	
36,370	37,356	4.3	5.1	7.3	8.0	20.2	
134,997	32,240	25.5	28.0	27.4	29.8	17.4	
53,159		15.5	15.2	13.2	11.7		
88,319	8,355	10.1	8.6	6.6	19.5	4.5	
59,434	55,200	15.7	15.0	22.4	13.1	29.8	
	28,215					15.2	
<u>\$ 554,763</u>	<u>\$ 272,993</u>	<u>85.9 %</u>	<u>90.4 %</u>	<u>103.9 %</u>	<u>122.4 %</u>	<u>147.4</u>	
<u>\$ (102,123)</u>	<u>\$ (87,908)</u>	<u>14.1 %</u>	<u>9.6 %</u>	<u>(3.9) %</u>	<u>(22.4) %</u>	<u>(47.4)</u>	
<u>\$ 193,000</u>	<u>\$ 80,000</u>						
\$ 90,877	\$ (7,908)						
<u>(22,487)</u>	<u>(14,579)</u>						
<u>\$ 68,390</u>	<u>\$ (22,487)</u>						

See accompanying independent auditor's report.

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

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 192,327	\$ 192,514	\$ 157,945
Penalty and Interest	1,219	1,526	1,692
Investment and Miscellaneous Revenues	4,607	3,670	577
Tax Rebate	4,688	3,327	2,846
TOTAL REVENUES	<u>\$ 202,841</u>	<u>\$ 201,037</u>	<u>\$ 163,060</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 15,587	\$ 13,738	\$ 10,811
Debt Service Principal	85,000		
Debt Service Interest and Fees	97,281	98,131	29,153
TOTAL EXPENDITURES	<u>\$ 197,868</u>	<u>\$ 111,869</u>	<u>\$ 39,964</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 4,973</u>	<u>\$ 89,168</u>	<u>\$ 123,096</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	\$ -0-	\$ -0-	\$ 97,381
NET CHANGE IN FUND BALANCE	\$ 4,973	\$ 89,168	\$ 220,477
BEGINNING FUND BALANCE (DEFICIT)	<u>309,645</u>	<u>220,477</u>	<u></u>
ENDING FUND BALANCE (DEFICIT)	<u>\$ 314,618</u>	<u>\$ 309,645</u>	<u>\$ 220,477</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>438</u>	<u>298</u>	<u>223</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>419</u>	<u>281</u>	<u>212</u>

* First year audit.

** Information unavailable at time of audit.

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015*	2019	2018	2017	2016	2015*
\$	\$	94.8 %	95.7 %	96.9 %		%
		0.6	0.8	1.0		
		2.3	1.8	0.4		
		2.3	1.7	1.7		
\$	\$	100.0 %	100.0 %	100.0 %		%
\$	\$	7.7 %	6.8 %	6.6 %		%
		41.9				
		48.0	48.8	17.9		
\$	\$	97.6 %	55.6 %	24.5 %		%
\$	\$	2.4 %	44.4 %	75.5 %	N/A	% N/A
\$	\$					
\$	\$					
\$	\$					
\$ N/A	\$ N/A					
167	**					
156	**					

See accompanying independent auditor's report.

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

District Telephone Number - (713) 623-4531

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2019

Consultants:	<u>Date Hired</u>	<u>Fees / Compensation for the year ended July 31, 2019</u>	<u>Title</u>
Schwartz, Page & Harding, L.L.P.	02/20/09	\$ 94,287	General Counsel
McCall Gibson Swedlund Barfoot PLLC	07/09/15	\$ 12,250 \$ 1,000	Auditor Other Services
Municipal Accounts & Consulting, L.P.	02/20/09	\$ 22,509	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/13/14	\$ 760	Delinquent Tax Attorney
Edminster, Hinshaw, Russ & Associates, Inc.	02/20/09	\$ 51,989	Engineer
Masterson Advisors LLC	05/10/18	\$ -0-	Financial Advisor
Municipal Operations & Consulting, L.P.	01/01/16	\$ 241,074	Operator
Mark Burton	02/20/09	\$ -0-	Investment Officer
Assessments of the Southwest, Inc.	06/07/13	\$ 8,417	Tax Assessor/ Collector

See accompanying independent auditor's report.