

TAX RATE AND BUDGET INFORMATION for fiscal-year ending 12-31-2021 ("current year") posted by Montgomery County Utility District No. 3 ("District" or "taxing unit"), Montgomery County, Texas, in accordance with Sec. 26.18 of the Texas Tax Code (as amended by S.B. 2, 2019 Reg. Session)

Updated with information applicable as of January 1, 2021

Information required by Sec. 26.18, Texas Tax Code, by subdivision number and description		Information posted (for the information item shown in left column)
(1)	the name of each member of the governing body of the taxing unit	The information is shown in the attached EXHIBIT A
(2)	the mailing address, e-mail address, and telephone number of the taxing unit	The information is shown in the attached EXHIBIT A
(3)	the official contact information for each member of the governing body of the taxing unit, if that information is different from the information described by Subdivision (2)	The information is shown in the attached EXHIBIT A
(4)	the taxing unit's budget for the preceding two years	The information is shown in the attached EXHIBIT B
(5)	the taxing unit's proposed or adopted budget for the current year	The information is shown in the attached EXHIBIT C
(6)	the change in the amount of the taxing unit's budget from the preceding year to the current year, by dollar amount and percentage	<i>Revenues:</i> General Fund, ex. Tax Account: increase of \$29,750 or 0.8% WWTP: increase of \$67,000 or 11.7%) <i>Expenditures:</i> General Fund, ex. Tax Account: increase of \$13,250 or 0.03%) WWTP: increase of \$67,000 or 11.7%)
(7)	in the case of a taxing unit other than a school district, the amount of property tax revenue budgeted for maintenance and operations for: (A) the preceding two years; and (B) the current year	\$200,000 for 2019; see EXHIBIT B; \$200,000 for 2020; see EXHIBIT B; \$236,000 for 2021 (current year); see EXHIBIT C
(8)	in the case of a taxing unit other than a school district, the amount of property tax revenue budgeted for debt service for: (A) the preceding two years; and (B) the current year	\$-0- for 2019; see EXHIBIT B; \$-0- for 2020; see EXHIBIT B; \$-0- for 2021 (current); see EXHIBIT C
(9)	the tax rate for maintenance and operations adopted by the taxing unit for the preceding two years	\$0.0899 for TY 2019 \$0.09 for TY 2020;
(10)	in the case of a taxing unit other than a school district, the tax rate for debt service adopted by the taxing unit for the preceding two years	\$0.00 for TY 2019; \$0.00 for TY 2020
(12)	the tax rate for maintenance and operations proposed by the taxing unit for the current year	(not yet proposed; proposal expected in July or August of 2021)
(13)	in the case of a taxing unit other than a school district, the tax rate for debt service proposed by the taxing unit for the current year;	(not yet proposed; proposal expected in July or August of 2021)
(14)	in the case of a school district, the interest and sinking fund tax rate proposed by the district for the current year; and	[This item does not apply to this taxing unit.]
(15)	the most recent financial audit of the taxing unit.	A copy of the financial audit is attached as EXHIBIT D

THE FOLLOWING LISTED EXHIBITS ARE ATTACHED AND ARE INTEGRAL PARTS OF THE INFORMATION POSTED:

- EXHIBIT A**
- EXHIBIT B**
- EXHIBIT C**
- EXHIBIT D**



District Registration Form

Legal Name of District or Authority: Montgomery County Utility District No. 3

1301 McKinney St., Ste. 5100 Houston, Texas 77010

District's Mailing Address
 713-651-5581
 City, State Zip Code
 meghan.koett@nortonrosefulbright.com

District's Telephone Number (AC) E-mail Web Address

A. BOARD MEMBERS (as applicable):

TITLE	FULL NAME OF DIRECTOR (First, Middle, Last)	FULL MAILING ADDRESS According to U.S. Post Office Standards	Business Phone	Fax Number	Home Phone	Elected (E), Appointed (A), or Elected by Precinct (P)	Term Begins (MM/DD/YYYY)	Term Ends (MM/DD/YYYY)
President or Chairman	Doris Hickman	MCUD No. 3 PO Box 1268 Montgomery, TX 77356	713-651-5581	713-651-5246		E	05/2018	05/2022
Vice-President	Richard Tibbetts	MCUD No. 3 PO Box 1268 Montgomery, TX 77356	713-651-5581	713-651-5246		E	05/2018	05/2022
Secretary	Janis Boulware	MCUD No. 3 PO Box 1268 Montgomery, TX 77356	713-651-5581	713-651-5246		E	05/2020	05/2024
Treasurer	Carolyn H. Smith	MCUD No. 3 PO Box 1268 Montgomery, TX 77356	713-651-5581	713-651-5246		E	05/2020	05/2024
Director								

B. CONSULTANTS AND REPRESENTATIVES (as applicable):

POSITION	FULL NAME OF INDIVIDUAL	NAME OF FIRM OR ORGANIZATION	FULL MAILING ADDRESS According to U.S. Post Office Standards	Business Phone	Fax Number
General Manager					
Operator	Phillip Wright	Hay Utility Service	PO Box 1268 Montgomery, TX 77356	936-588-1166	936-588-1748
Attorney	Neil Thomas	Norton Rose Fulbright US LLP	1301 McKinney St., Ste. 5100 Houston, TX 77010	713-651-3613	713-651-5246
Engineer	Chris Roznovsky	Jones/Carter, Inc.	1575 Sawdust Rd. Ste. 400, The Woodlands, TX 77380	281-363-4039	281-363-3459
Bookkeeper	Steve Haskins	Protocol Bookkeeping, Inc.	1506 Whispering Pines, Houston, TX 77055	713-686-0860	713-681-9645
Financial Advisor	John F. Howell, Jr.	The GMS Group, LLC	5075 Westheimer, Ste. 1175 Houston, TX 77056	713-626-3552	713-626-3347
Tax Collector	Tammy McRae	Montgomery County	400 N San Jacinto, Conroe, TX 77301	936-539-7809	936-538-8129
Agent for Notice	Neil Tohmas	Norton Rose Fulbright US LLP	1301 McKinney St., Ste. 5100 Houston, TX 77010	713-651-3613	713-651-5246

*All information provided herein is subject to the Public Information Act and will be made available on our web site (www.tceq.texas.gov)

District Registration Form (continued)

A. BOARD MEMBERS (continued):

TITLE	FULL NAME OF DIRECTOR (First, Middle, Last)	FULL MAILING ADDRESS (According to U.S. Post Office Standards)	Business Phone	Fax Number	Home Phone	Elected (E), Appointed (A), or Elected by Precinct (P)	Term Begins (MM/DD/YYYY)	Term Ends (MM/DD/YYYY)
Assistant Secretary	Judy Robert	MCUD No. 3 PO Box 1268 Montgomery, TX 77356	713-651-5581	713-651-5246		E	05/2018	05/2022

Certification: I certify that the information contained herein is correct and complete to the best of my knowledge.

Meghan Koett Digitally signed by Meghan Koett; DN: cn=Meghan Koett, o=Montgomery County, ou=Montgomery County, email=Meghan.Koett@montgomerycountytexas.gov, c=US, Date: 2020.06.10 11:34:56 -0500 **Paralegal 713-651-5691** **6/10/2020**

Signature _____ (Area Code) Daytime Telephone _____ Date Signed _____

If you have questions on how to fill out this form, please contact us at (512) 239 - 4691. Individuals are entitled to request and review their personal information the Agency gathers on its forms. They may also have errors in their information corrected. To review such information, contact us at (512) 239 - 3282.

Texas Statutes can be viewed at: <https://statutes.capitol.texas.gov/>

Submit completed form using the Submit button (if using electronic signature), via fax to 512-239-6190, or mail to:

DISTRICTS SECTION, MC-152
 TCEQ
 PO BOX 13087
 Austin, Texas 78711-3087

Submit

EXHIBIT B (part of TAX RATE AND BUDGET INFORMATION)

Budgets for previous two years

General Fund Budget

	Dec 19	Budget	\$ Over Budget	Jan - Dec 19	YTD Budget	\$ Over Budget	Annual Budget
Income							
4100 - WATER REVENUE	57,000	31,800	25,200	408,710	530,000	(121,290)	530,000
4101 - LONESTAR GROUND WATER	0	540	(540)	1,982	9,000	(7,018)	9,000
4120 - TRANSFER/RECONNECT/DISCONNECT	0	833	(833)	8,830	10,000	(1,170)	10,000
4200 - SEWER REVENUE	45,191	39,600	5,591	524,194	660,000	(135,806)	660,000
4330 - PENALTY & INTEREST	608	625	(17)	6,875	7,500	(625)	7,500
4400 - REVENUE LAKE CONROE VILLAGE	0	6,500	(6,500)	65,228	78,000	(12,772)	78,000
4502 - BOND REIMBURSEMENT 2014	0	0	0	469,490	470,610	(1,120)	470,610
4600 - TAP REVENUE	0	1,250	(1,250)	12,800	15,000	(2,200)	15,000
4620 - SEWER TAP/INSPECTIONS	1,050	833	217	11,853	10,000	1,853	10,000
5380 - MISC. REVENUES	288,621	417	288,204	296,513	5,000	291,513	5,000
5391 - INTEREST EARNED	4,490	2,500	1,990	71,700	30,000	41,700	30,000
5398 - MAINTENANCE TAX	0	0	0	210,104	200,000	10,104	200,000
5400 - COC - REIMBURSEMENT	0	0	0	180,448	157,000	23,448	157,000
5500 - TRANSFER FROM C/P	0	1,705,000	(1,705,000)	94,719	1,800,000	(1,705,281)	1,800,000
Total Income	396,960	1,789,898	(1,392,938)	2,363,446	3,982,110	(1,618,664)	3,982,110
Expense							
6135 - MAINTENANCE & REPAIR (W)	13,551	12,500	1,051	280,735	150,000	130,735	150,000
6136 - WATER PLANT MAINTENANCE	2,660	6,667	(4,007)	47,945	80,000	(32,055)	80,000
6152 - WP SHARED EXPENSE	3,470	5,000	(1,530)	43,725	60,000	(16,275)	60,000
6171 - TAP COSTS (W)	0	417	(417)	3,144	5,000	(1,856)	5,000
6180 - TRANSFERS/DISCONNECT/RECONNECT	768	1,667	(899)	16,203	20,000	(3,797)	20,000
6202 - WWTP EXPENSE	11,305	21,250	(9,945)	194,311	255,000	(60,689)	255,000
6230 - MAINTENANCE & REPAIR STORM	463	5,417	(4,954)	31,620	65,000	(33,380)	65,000
6235 - MAINTENANCE & REPAIR (S)	14,572	1,884,693	(1,870,121)	135,999	1,976,360	(1,840,361)	1,976,360
6236 - GREASE TRAP/INSPECTION	908	958	(50)	10,360	11,500	(1,140)	11,500
6272 - TAP COSTS (S)	0	208	(208)	1,170	2,500	(1,330)	2,500
6310 - DIRECTOR FEES	1,350	1,500	(150)	16,200	18,000	(1,800)	18,000
6320 - LEGAL FEES	12,328	6,667	5,659	74,607	80,000	(5,393)	80,000
6321 - AUDIT FEES	0	0	0	10,950	11,000	(50)	11,000
6322 - ENGINEERING FEES	19,524	10,833	8,691	64,668	130,000	(65,332)	130,000
6324 - LABORATORY FEES	146	292	(146)	4,704	3,500	1,204	3,500
6325 - ELECTION EXPENSE	0	0	0	0	10,000	(10,000)	10,000
6326 - PERMIT/ASSESSMENT FEES	(6,270)	0	(6,270)	(1,754)	9,000	(10,754)	9,000
6327 - LONE STAR GW DISTRICT	3,573	0	3,573	22,631	20,000	2,631	20,000
6332 - OPERATOR CONTRACT	5,322	7,083	(1,761)	72,936	85,000	(12,064)	85,000
6333 - BOOKKEEPER	1,045	1,167	(122)	15,610	14,000	1,610	14,000
6338 - LEGAL NOTICES	0	83	(83)	803	1,000	(197)	1,000
6340 - ADMINISTRATIVE EXPENSE	2,476	2,500	(24)	29,835	30,000	(165)	30,000
6350 - POSTAGE	10	17	(7)	164	200	(36)	200
6351 - TELEPHONE	320	292	28	3,482	3,500	(18)	3,500
6352 - UTILITIES (L/S)	260	1,250	(990)	12,136	15,000	(2,864)	15,000
6353 - INSURANCE	0	0	0	21,923	18,000	3,923	18,000
6354 - TRAVEL & PER DIEM	90	208	(118)	3,351	2,500	851	2,500
6355 - AWBD DUES AND REGISTRATIONS	0	0	0	1,420	1,000	420	1,000
6359 - OTHER EXPENSES	1,174	83	1,091	3,777	1,000	2,777	1,000
6361 - DELIVERY EXPENSE	83	125	(42)	1,344	1,500	(156)	1,500
6362 - PAYROLL EXPENSE	224	208	16	2,493	2,500	(7)	2,500
6363 - BANK FEE	0	208	(208)	1,043	2,500	(1,457)	2,500
7300 - TWDB BOND PAYMENT INT EXP	0	0	0	252,550	252,550	0	252,550
7301 - TWDB PRINCIPAL PAYMENT	0	0	0	180,000	180,000	0	180,000
7310 - TRANSFER TO DS FUND	0	0	0	250,000	250,000	0	250,000
7400 - GARBAGE EXPENSE	17,925	17,917	8	215,405	215,000	405	215,000
Total Expense	107,275	1,989,210	(1,881,935)	2,025,490	3,982,110	(1,956,620)	3,982,110

EXHIBIT B, cont. (part of TAX RATE AND BUDGET INFORMATION)

Budgets for previous two years

WWTP Budget

	Dec 19	Budget	\$ Over Budget	Jan - Dec 19	YTD Budget	\$ Over Budget	Annual Budget
Income							
4203 · MCUD #3 CONTRIBUTION	11,304.52	19,280.16	(7,975.64)	196,634.44	231,362.00	(34,727.56)	231,362.00
4204 · MCUD #4 CONTRIBUTION	11,821.33	19,883.33	(8,062.00)	204,308.32	238,600.00	(34,291.68)	238,600.00
5380 · MISC REVENUES	18.55	62.50	(43.95)	86.76	750.00	(663.24)	750.00
5400 · CAPACITY RESERVATION FEE	7,728.16	7,728.16	0.00	92,737.92	92,738.00	(0.08)	92,738.00
Total Income	30,872.56	46,954.15	(16,081.59)	493,767.44	563,450.00	(69,682.56)	563,450.00
Expense							
6221 · AUDIT FEES WWTP	0.00	0.00	0.00	4,250.00	4,250.00	0.00	4,250.00
6222 · ENGINEERING	601.25	1,958.33	(1,357.08)	12,064.44	23,500.00	(11,435.56)	23,500.00
6224 · LABORATORY EXPENSE	3,953.13	3,333.33	619.80	45,261.17	40,000.00	5,261.17	40,000.00
6226 · PERMIT FEES	0.00	0.00	0.00	4,884.43	500.00	4,384.43	500.00
6230 · SLUDGE MANAGEMENT	0.00	0.00	0.00	108,291.47	90,000.00	18,291.47	90,000.00
6232 · OPERATOR CONTRACT	5,000.00	5,000.00	0.00	60,000.00	60,000.00	0.00	60,000.00
6233 · BOOKKEEPING	800.00	916.66	(116.66)	10,050.00	11,000.00	(950.00)	11,000.00
6234 · MOWING FACILITIES	945.30	833.33	111.97	9,453.00	10,000.00	(547.00)	10,000.00
6235 · MAINTENANCE AND REPAIRS	10,546.73	10,000.00	546.73	99,842.51	120,000.00	(20,157.49)	120,000.00
6240 · OFFICE EXPENSE	97.50	166.66	(69.16)	1,282.18	2,000.00	(717.82)	2,000.00
6242 · CHEMICALS	2,881.11	5,000.00	(2,118.89)	30,025.07	60,000.00	(29,974.93)	60,000.00
6251 · TELEPHONE	0.00	125.00	(125.00)	0.00	1,500.00	(1,500.00)	1,500.00
6252 · UTILITIES	6,684.75	7,083.33	(398.58)	63,185.02	85,000.00	(21,814.98)	85,000.00
6253 · INSURANCE	0.00	0.00	0.00	32,584.88	33,000.00	(415.12)	33,000.00
6331 · MANAGEMENT FEE	600.00	600.00	0.00	7,200.00	7,200.00	0.00	7,200.00
6350 · CAPITAL OUTLAY	0.00	15,000.00	(15,000.00)	0.00	15,000.00	(15,000.00)	15,000.00
6358 · MISC. EXPENSE	18.00	41.66	(23.66)	344.72	500.00	(155.28)	500.00
Total Expense	32,127.77	50,058.30	(17,930.53)	488,718.89	563,450.00	(74,731.11)	563,450.00

General Fund Budget

Montgomery County #3 2020 APPROVED	<u>Jan '20 - Dec '20</u>
Beginning cash balance	
Income	
4100 · USER FEES (WATER)	400,000
4101 · LONESTAR GROUND WATER	8,000
4120 · TRANSFER/RECONNECT/DISCONNECT	10,000
4200 · USER FEES (SEWER)	600,000
4330 · PENALTY USER FEES	7,500
4400 · REVENUE LAKE CONROE VILLAGE	78,000
4502 - DEBT SERVICE PYMT REIMBURSEMENT	472,000
4600 - TAP FEES (WATER)	15,000
4620 · SEWER TAPS & INSPECTIONS	10,000
5380 · MISC REVENUES/STANDBY	5,000
5391 · INTEREST EARNED	60,000
5398 · MAINTENANCE TAX COLLECTION	200,000
5400 - CITY OF CONROE REIMBURSEMENT	175,000
5410 - TRANSMISSION COST REVENUE	340,000
5500 - TRANSFER FROM CAPITAL PROJECTS	1,550,000
	3,930,500
TOTAL REVENUE	3,930,500
Expenses	
6135 - MAINTENANCE & REPAIRS (W)	590,000
6136 - WATER PLANT MAINTENANCE	80,000
6152 - WP SHARED EXPENSE	50,000
6171 - TAP COST (W)	5,000
6180 - TRANSFERS DISC/RECONNECT	17,000
6202 - WWTP EXPENSE	227,000
6230 - MAINTENANCE & REPAIR STORM	40,000
6235 - MAINTENANCE & REPAIR (Sewer)	1,850,000
6236 - GREASE TRAP / INSPECTION	11,000
6272 - TAP COST (S)	3,000
6310 - DIRECTOR FEES	18,000
6320 - LEGAL FEES	80,000
6321 - AUDIT FEES	11,000
6322 - ENGINEERING FEES	364,000
6324 - LABORATORY FEES water	5,000
6325 - ELECTION FEES	10,000
6326 - PERMIT / ASSESSMENT FEES tceq	9,000
6327 - LONE STAR GW DISTRICT	18,000
6332 - OPERATORS CONTRACT	85,000
6333 - BOOKKEEPING CONTRACT	15,000
6338 - LEGAL NOTICES	1,000
6340 - ADMINISTRATIVE EXPENSE	30,000
6350 - POSTAGE	350
6351 - TELEPHONE	3,500
6352 - UTILITIES (L/S)	14,000
6353 - INSURANCE	22,000
6354 - TRAVEL & PER DIEM	5,000
6355 - AWBD DUES & REGISTRATIONS	2,000
6359 - OTHER EXPENSES	2,400
6361 - DELIVERY EXPENSE	1,500
6362 - PAYROLL EXPENSE	2,500
6363 - BANK FEES	2,000
7300 - TWDB BOND PAYMENT INTEREST	245,250
7301 - TWDB BOND PAYMENT PRINCIPLE	190,000
7310 - TRANSFER TO DS	250,000
7400 - GARBAGE EXPENSE	220,000
	4,479,500
TOTAL EXPENSES	4,479,500

EXHIBIT B, cont. (part of TAX RATE AND BUDGET INFORMATION)

Budgets for previous two years

WWTP Budget

	Jun 20	Budget	\$ Over Budget	Jan - Jun 20	YTD Budget	\$ Over Budget	Annual Budget
Income							
4203 · MCUD #3 CONTRIBUTION	25,371	18,939	6,432	132,803	113,631	19,172	227,262
4204 · MCUD #4 CONTRIBUTION	55,629	20,517	35,112	140,852	123,100	17,752	246,200
5380 · MISC REVENUES	9	63	(54)	65	375	(310)	750
5400 · CAPACITY RESERVATION FEE	8,103	8,103	0	48,619	48,619	0	97,238
Total Income	89,112	47,622	41,490	322,339	285,725	36,614	571,450
Expense							
6221 · AUDIT FEES WWTP	0	0	0	4,250	4,250	0	4,250
6222 · ENGINEERING	46	1,958	(1,912)	2,235	11,750	(9,515)	23,500
6224 · LABORATORY EXPENSE	3,522	3,750	(228)	22,687	22,500	187	45,000
6226 · PERMIT FEES	0	42	(42)	0	250	(250)	500
6230 · SLUDGE MANAGEMENT	26,341	26,000	341	52,641	52,000	641	90,000
6232 · OPERATOR CONTRACT	5,000	5,000	0	30,000	30,000	0	60,000
6233 · BOOKKEEPING	800	917	(117)	5,250	5,500	(250)	11,000
6234 · MOWING FACILITIES	945	833	112	4,254	5,000	(746)	10,000
6235 · MAINTENANCE AND REPAIRS	7,992	11,250	(3,258)	122,658	120,000	2,658	135,000
6240 · OFFICE EXPENSE	98	125	(27)	715	750	(35)	1,500
6242 · CHEMICALS	4,470	4,167	303	35,355	35,000	355	50,000
6252 · UTILITIES	12,622	7,083	5,539	38,881	42,500	(3,619)	85,000
6253 · INSURANCE	0	0	0	0	0	0	33,000
6331 · MANAGEMENT FEE	1,200	600	600	3,600	3,600	0	7,200
6350 · CAPITAL OUTLAY	0	0	0	0	0	0	15,000
6358 · MISC. EXPENSE	9	42	(33)	65	250	(185)	500
Total Expense	63,045	61,767	1,278	322,591	333,350	(10,759)	571,450

General Fund Budget

Montgomery County #3 2021 PROPOSAL	Jan '21 - Dec '21
Beginning cash balance	
Income	
4100 · USER FEES (WATER)	410,000
4101 · LONESTAR GROUND WATER	8,000
4120 · TRANSFER/RECONNECT/DISCONNECT	12,000
4200 · USER FEES (SEWER)	550,000
4330 · PENALTY USER FEES	6,500
4400 · REVENUE LAKE CONROE VILLAGE	125,000
4502 · DEBT SERVICE PYMT REIMBURSEMENT	473,850
4600 · TAP FEES (WATER)	15,000
4620 · SEWER TAPS & INSPECTIONS	10,000
5380 · MISC REVENUES/STANDBY	20,000
5391 · INTEREST EARNED	20,000
5398 · MAINTENANCE TAX COLLECTION	236,000
5400 · CITY OF CONROE REIMBURSEMENT	183,900
5410 · TRANSMISSION COST REVENUE	340,000
5500 · TRANSFER FROM CAPITAL PROJECTS	1,550,000
TOTAL REVENUE	3,960,250
Expenses	
6135 - MAINTENANCE & REPAIRS (W)	
6135A - DISTRIBUTION SYSTEM	237,300
6135B - TRANSMISSION SYSTEM	363,950
6136 - WATER PLANT MAINTENANCE	40,000
6152 - WP SHARED EXPENSE	50,000
6171 - TAP COST (W)	10,000
6180 - TRANSFERS DISC/RECONNECT	17,000
6202 - WWTP EXPENSE	295,500
6230 - MAINTENANCE & REPAIR STORM	50,000
6235 - MAINTENANCE & REPAIR (Sewer)	
6235A - COLLECTION SYSTEM	395,000
6235B - TRANSMISSION SYSTEM	880,000
6235C - COLLECTION SYSTEM LIFT STATION (RETAIL)	120,000
6235D - TRANSMISSION SYSTEM LIFT STATION (WHOLESALE)	240,000
6235E - JOINT Y-TRUNK	215,000
6236 - GREASE TRAP / INSPECTION	11,000
6272 - TAP COST (S)	3,000
6310 - DIRECTOR FEES	16,000
6320 - LEGAL FEES	80,000
6321 - AUDIT FEES	11,000
6322 - ENGINEERING FEES	
6322A - SANITARY SEWER SYSTEM	161,500
6322B - WATER SYSTEM	87,000
6322C - WATER PLANTS	11,500
6322D - DRAINAGE/STORM SEWER SYSTEM	5,000
6322E · LIFT STATIONS	42,000

EXHIBIT C, cont. (part of TAX RATE AND BUDGET INFORMATION)

Budget for current year

6324 - LABORATORY FEES water	4,000
6325 - ELECTION FEES	0
6326 - PERMIT / ASSESSMENT FEES tceq	6,500
6327 - LONE STAR GW DISTRICT	18,000
6332 - OPERATORS CONTRACT	
6332A - WATER PLANT	52,900
6332B - TRANSMISSION LIFT STATION (WHOLESALE)	5,500
6332C - COLLETION SYSTEM LIFT STATIONS (RETAIL)	18,100
6332D - CUSTOMER ACCOUNTING	8,500
6333 - BOOKKEEPING CONTRACT	18,000
6338 - LEGAL NOTICES - OTHER	0
6338A - LEGAL NOTICES REQUIRED BY LAW	1,000
6339 - LOBBYING GOV'T CODE SEC 140.0045	0
6340 - ADMINISTRATIVE EXPENSE	31,500
6350 - POSTAGE	500
6351 - TELEPHONE	
6351A - COLLECTION SYSTEM	3,500
6351B - TRANSMISSION SYSTEM (WHOLESALE)	500
6352 - UTILITIES (L/S)	
6352A - COLLECTION SYSTEM LIFT STATION	7,000
6352B - TRANSMISSION SYSTEM (WHOLESALE)	7,000
6353 - INSURANCE	32,500
6354 - TRAVEL & PER DIEM	2,500
6355 - AWBD DUES & REGISTRATIONS	2,000
6359 - OTHER EXPENSES	1,000
6361 - DELIVERY EXPENSE	2,000
6362 - PAYROLL EXPENSE	2,500
6363 - BANK FEES	2,000
6365 - WEBSITE	7,000
7300 - TWDB BOND PAYMENT INTEREST	237,000
7301 - TWDB BOND PAYMENT PRINCIPLE	200,000
7310 - TRANSFER TO DS	250,000
7400 - GARBAGE EXPENSE	230,000
	<hr/>
TOTAL EXPENSES	4,492,750
	<hr/>
Net Income Before reserves	(532,500)
	<hr/>
Use of Prior Years Reserves	532,500
	<hr/>
Net Income	0
	<hr/> <hr/>

EXHIBIT C, cont. (part of TAX RATE AND BUDGET INFORMATION)

Budget for current year

Montgomery County #3 2021 PROPOSAL TAX ACCOUNT	Jan '21 - Dec '21
Revenues	
Property Taxes (current)	235,000
Property Taxes (delinquent)	4,500
Penalties, Fees, etc.	1,000
TOTAL REVENUE	240,500
Expenses	
MCAD assessment	2,000
Delinquent tax attorney fees	0
Tax A-C fees	500
Other costs of collections	1,400
Transfer to General Fund (Property tax for M&O)	236,600
Transfer to DS (Property tax for Debt Service)	0
TOTAL EXPENSES	240,500
Net Income	0

WWTP Budget

WWTP MC3&4 Approved Budget	<u>Jan '21 - Dec 21</u>	
Income		
4203 · MCUD #3 Contract Payments	255,318	
4204 · MCUD #4 Contract Payments	276,594	
4205 - City of Conroe Monthly Charges	0	
5380 - Interest Revenue	50	
5400 - CAPACITY RES FEE	106,488	
Total Income	<u>638,450</u>	
Expense		
6221 · AUDIT FEES STP	4,250	
6222 · ENGINEERING	26,000	
6224 · LABORATORY EXPENSE	70,000	
6226 · PERMIT FEES	25,000	
6230 · SLUDGE MANAGEMENT	120,000 **	120,000.00
6232 · OPERATOR CONTRACT	60,000	
6233 · BOOKKEEPING	11,000	
6234 · MOWING FACILITIES	10,000	
6235 · MAINTENANCE AND REPAIRS	135,000	
6240 · OFFICE EXPENSE	1,500	
6242 · CHEMICALS	50,000 **	50,000.00
6252 · UTILITIES	85,000 ** 1/2 =	42,500.00
6253 · INSURANCE (Apportioned)	33,000	
6331 · MANAGEMENT FEE (Directors)	7,200	
6350 · CAPITAL OUTLAY	0	
6358 · MISC. EXPENSE	500	
Total Expense	<u>638,450</u>	<u>212,500</u>
Net Income	<u>0</u>	
Less flow related Items (**)	212,500	
NON FLOW RELATED ITEMS **	425,950	
BILL TO CITY OF CONROE	<u>106,488</u>	

EXHIBIT D (EXHIBIT D is 42 pages, all part of TAX RATE AND BUDGET INFORMATION)

MONTGOMERY COUNTY
UTILITY DISTRICT NO. 3
MONTGOMERY COUNTY, TEXAS
ANNUAL AUDIT REPORT
DECEMBER 31, 2019

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Mark C. Eyring, CPA, PLLC

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May 18, 2020

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County
Utility District No. 3
Montgomery County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Montgomery County Utility District No. 3, as of and for the year ended December 31, 2019, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 assessment of the risk 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 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 I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Montgomery County Utility District No. 3 as of December 31, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8, the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 23 and the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund, on Page 24 be presented to supplement the basic financial statements. Such information, although not 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 25 to 40 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in black ink, appearing to read "M. G. J.", is located in the lower right quadrant of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Montgomery County Utility District No. 3 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2019.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water, sewer and drainage services. Other activities, such as garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that the expenditures in the funds are billed to the participants in accordance with the contract. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Current and other assets	\$ 14,420,187	\$ 14,782,681	\$ (362,494)
Capital assets	7,347,362	7,367,346	(19,984)
Total assets	<u>21,767,549</u>	<u>22,150,027</u>	<u>(382,478)</u>
Long-term liabilities	8,355,319	8,667,644	(312,325)
Other liabilities	1,001,367	753,461	247,906
Total liabilities	<u>9,356,686</u>	<u>9,421,105</u>	<u>(64,419)</u>
Total deferred inflows of resources	<u>8,022,309</u>	<u>8,468,045</u>	<u>(445,736)</u>
Net position:			
Invested in capital assets, net of related debt	(1,320,282)	(1,602,544)	282,262
Restricted	2,045,253	2,367,848	(322,595)
Unrestricted	3,663,583	3,495,573	168,010
Total net position	<u>\$ 4,388,554</u>	<u>\$ 4,260,877</u>	<u>\$ 127,677</u>

Summary of Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 218,671	\$ 209,265	\$ 9,406
Charges for services	2,026,345	2,032,046	(5,701)
Other revenues	101,231	35,152	66,079
Total revenues	<u>2,346,247</u>	<u>2,276,463</u>	<u>69,784</u>
Expenses:			
Service operations	2,120,026	2,234,778	(114,752)
Debt service	386,184	396,392	(10,208)
Total expenses	<u>2,506,210</u>	<u>2,631,170</u>	<u>(124,960)</u>
Special Items:			
Settlement proceeds	<u>287,640</u>	<u>0</u>	<u>287,640</u>
Change in net position	127,677	(354,707)	482,384
Net position, beginning of year	<u>4,260,877</u>	<u>4,615,584</u>	<u>(354,707)</u>
Net position, end of year	<u>\$ 4,388,554</u>	<u>\$ 4,260,877</u>	<u>\$ 127,677</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended December 31, 2019, were \$5,825,964, a decrease of \$156,412 from the prior year.

The General Fund balance increased by \$168,567, as revenues and settlement proceeds exceeded expenditures and the transfer of \$250,000 to the Debt Service Fund.

The Special Revenue Fund balance did not change.

The Debt Service Fund balance decreased by \$6,701, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$318,278, as authorized expenditures exceeded interest earnings on deposits.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 23 of this report. The budgetary fund balance as of December 31, 2019, was expected to be \$3,913,045 and the actual end of year fund balance was \$4,081,612.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Land and easements	\$ 356,655	\$ 356,655	\$ 0
Construction in progress	382,503	1,565	380,938
Water facilities	2,652,427	2,853,398	(200,971)
Sewer facilities	3,806,770	4,000,494	(193,724)
Drainage facilities	149,007	155,234	(6,227)
Totals	<u>\$ 7,347,362</u>	<u>\$ 7,367,346</u>	<u>\$ (19,984)</u>

Changes to capital assets during the fiscal year ended December 31, 2019, are summarized as follows:

Additions:		
Water system improvements		\$ 42,265
Sewer system improvements		338,673
Total additions to capital assets		<u>380,938</u>
Decreases:		
Depreciation		<u>(400,922)</u>
Net change to capital assets		<u>\$ (19,984)</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended December 31, 2019, are summarized as follows:

Bonded debt payable, beginning of year	\$ 9,005,000
Bonds paid	(305,000)
Bonded debt payable, end of year	<u>\$ 8,700,000</u>

At December 31, 2019, the District had \$17,760,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The Series 2011 bonds are neither rated nor insured. The Series 2014 bonds have an underlying rating of A by Standard & Poor's. The Series 2014 bonds are insured by Build America Mutual Assurance Company. Because of the insurance, the Series 2014 bonds are rated AA by Standard & Poor's. There were no changes in the bond ratings during the year ended December 31, 2019.

As described in Note 11 of the Notes to the Financial Statements, the City of Conroe will make future payments to the District to defray a portion of the District's debt service obligations.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$27,876,000 for the 2019 tax year (about 12%) due to the addition of new property to the tax base and the increase of the average assessed valuations on existing property.

Relationship to the City of Conroe

In February 2013, the District entered into a Strategic Partnership Agreement ("SPA") with the City of Conroe, Texas, as authorized by Texas Local Government Code, Chapter 43. The SPA provides for a "full purpose annexation" of the District by the City effective December 31, 2014. The SPA also provides that the District will continue to exist as a "limited district" after the annexation, with powers and functions provided by law, including water, wastewater, storm sewer and solid waste services, and also including the power to levy taxes and collect user fees. The District will continue to be responsible for maintenance of its water and wastewater system.

In consideration of the services to be provided by the District and for a share of the District's treatment capacity in the Wastewater Treatment Plant, the City will make various future payments to the District, as described in Note 11 of the Notes to the Financial Statements.

Water Supply Issues

The District is within the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"). The LSGCD was created by the Legislature of the State of Texas in Acts 2001, 77th Legislature, Regular Session. The LSGCD is a political subdivision of the State of Texas, governed by an elected seven member board of directors. The purpose of the LSGCD is to provide for the conservation, preservation, protection, recharging, and prevention of waste and excessive depletion of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence which may be caused by the withdrawal of water from those groundwater reservoirs or their subdivisions, consistent with the objectives of Section 59, Article XVI, Texas Constitution. Rule 8.1 of the rules of the LSGCD authorizes the board of directors of the LSGCD to establish by resolution a regulatory water use fee to accomplish the purposes of the LSGCD. In accordance with this rule, as of September 30, 2019, the LSGCD had established a regulatory water use fee of \$0.105 per 1,000 gallons of water pumped from each regulated well.

As of December 31, 2019, the Groundwater District's Board and Consultants were working on replacement regulations to accomplish their objectives found in their Groundwater Management Plan.

Previous regulations included reductions in groundwater pumping within the Gulf Coast Aquifer system, and they have been declared invalid by a Montgomery County Court. This was due to a lawsuit against the Lone Star Groundwater Conservation District by several Large Volume Groundwater Users (LVGUs) in Montgomery County. The ruling was confirmed and signed by the Judge on May 15, 2019, ending the lawsuit.

The District was not a party to this lawsuit, and was in compliance with the previous regulations requiring reduced groundwater pumping. By investing in a deeper water well in the Catahoula Aquifer (not part of the Gulf Coast Aquifer System), the District has successfully accessed another water supply for the future.

Currently the District has plentiful water supplies and exceeds the current Texas Commission on Environmental Quality (TCEQ) regulations for public water supplies. Future Lone Star Groundwater Conservation District regulations on pumping are anticipated to be less stringent and should have no affect on the District.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2019

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS							
Cash, including interest-bearing accounts, Note 7	\$ 1,127,607	\$ 134,634	\$ 206,967	\$ 13,300	\$ 1,482,508		\$ 1,482,508
Temporary investments, at cost, Note 7	3,198,008			1,578,402	4,776,410		4,776,410
Receivables:							
Property taxes	115,171		1,966		117,137		117,137
Service accounts	73,049				73,049		73,049
Standby fees	2,876				2,876		2,876
Other governmental entities	24,131	28,226		19,022	71,379		71,379
Other	112,442				112,442		112,442
Maintenance taxes collected not yet transferred from other fund	127,930				127,930	(127,930)	0
Due from other fund		39,513		15,093	54,606	(54,606)	0
Prepaid expenditures	6,198				6,198		6,198
Operating reserve at sewage treatment plant, Note 9	20,000				20,000	(20,000)	0
Due from the City of Conroe, Note 11	7,778,188				7,778,188		7,778,188
Capital assets, net of accumulated depreciation, Note 4:							
Capital assets not being depreciated					0	739,158	739,158
Depreciable capital assets					0	6,608,204	6,608,204
Total assets	\$ 12,585,600	\$ 202,373	\$ 208,933	\$ 1,625,817	\$ 14,622,723	7,144,826	21,767,549
LIABILITIES							
Accounts payable	\$ 112,213	\$ 65,135	\$ 502		\$ 177,850		177,850
Construction contracts payable	172,166				172,166		172,166
Customer deposits	127,085				127,085		127,085
Accrued interest payable					0	94,703	94,703
Maintenance taxes collected not yet transferred to other fund			127,930		127,930	(127,930)	0
Due to other funds	54,606				54,606	(54,606)	0
Advance payment for treatment expenditures, Note 11		97,238			97,238		97,238
Other district equity in sewage treatment plant					0	20,000	20,000
Long-term liabilities, Note 5:							
Due within one year					0	312,325	312,325
Due in more than one year					0	8,355,319	8,355,319
Total liabilities	466,070	162,373	128,432	0	756,875	8,599,811	9,356,686
DEFERRED INFLOWS OF RESOURCES							
Property tax revenues	256,854		1,966		258,820	(17,575)	241,245
Standby fee revenues	2,876				2,876	0	2,876
City of Conroe, Note 11	7,778,188				7,778,188	0	7,778,188
Total deferred inflows of resources	8,037,918	0	1,966	0	8,039,884	(17,575)	8,022,309
FUND BALANCES / NET POSITION							
Fund balances:							
Nonspendable:							
Operating reserve at sewage treatment plant, Note 9	20,000				20,000	(20,000)	0
Restricted for:							
Operating reserve at sewage treatment plant, Note 9		40,000			40,000	(40,000)	0
Bond interest, Note 5	433,638				433,638	(433,638)	0
Committed to construction contracts in progress				97,844	97,844	(97,844)	0
Assigned to:							
Debt service			78,535		78,535	(78,535)	0
Capital projects				1,527,973	1,527,973	(1,527,973)	0
Unassigned	3,627,974				3,627,974	(3,627,974)	0
Total fund balances	4,081,612	40,000	78,535	1,625,817	5,825,964	(5,825,964)	0
Total liabilities, deferred inflows, and fund balances	\$ 12,585,600	\$ 202,373	\$ 208,933	\$ 1,625,817	\$ 14,622,723		
Net position:							
Invested in capital assets, net of related debt, Note 4						(1,320,282)	(1,320,282)
Restricted for debt service						419,436	419,436
Restricted for capital projects						1,625,817	1,625,817
Unrestricted						3,663,583	3,663,583
Total net position						\$ 4,388,554	\$ 4,388,554

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

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

FOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES							
Property taxes	\$ 216,426		\$ 201		\$ 216,627	\$ (793)	\$ 215,834
Water service	373,681				373,681		373,681
Sewer service	531,153				531,153		531,153
Bulk sewer service, Note 9	113,009				113,009		113,009
Surface water fees, Note 10	1,982				1,982		1,982
From participants in plant, Note 9		443,501			443,501	(216,133)	227,368
Penalty and interest	6,875		2,837		9,712		9,712
Tap connection and inspection fees	24,653				24,653		24,653
Reimbursement from the City of Conroe, Note 11	649,938	83,884			733,822		733,822
Interest on deposits and investments	71,710	183	63	29,275	101,231		101,231
Other revenues	13,802				13,802		13,802
Total revenues	2,003,229	527,568	3,101	29,275	2,563,173	(216,926)	2,346,247
EXPENDITURES / EXPENSES							
Service operations:							
Purchased sewer services, Note 9	216,133				216,133	(216,133)	0
Professional fees	234,868	16,389	483		251,740		251,740
Contracted services	87,685	70,050	2,319		160,054		160,054
Utilities	12,500	63,185			75,685		75,685
Regulatory water use fees, Note 10	20,166				20,166		20,166
Repairs and maintenance	490,841	125,800			616,641		616,641
Other operating expenditures	40,436	205,745			246,181		246,181
Garbage disposal	215,450				215,450		215,450
Administrative expenditures	81,404	46,399			127,803		127,803
Depreciation					0	400,922	400,922
Capital outlay / non-capital outlay	38,769			347,553	386,322	(380,938)	5,384
Debt service:							
Principal retirement	180,000		125,000		305,000	(305,000)	0
Interest and fees	254,050		132,000		386,050	134	386,184
Total expenditures / expenses	1,872,302	527,568	259,802	347,553	3,007,225	(501,015)	2,506,210
Excess (deficiency) of revenues over expenditures	130,927	0	(256,701)	(318,278)	(444,052)	284,089	(159,963)
OTHER FINANCING SOURCES (USES)							
Transfer to (from) other fund	(250,000)		250,000		0		0
Settlement proceeds	287,640				287,640	(287,640)	0
Total other financing sources (uses)	37,640	0	250,000	0	287,640	(287,640)	0
SPECIAL ITEMS							
Settlement proceeds	0	0	0	0	0	287,640	287,640
Net change in fund balances / net position	168,567	0	(6,701)	(318,278)	(156,412)	284,089	127,677
Beginning of year	3,913,045	40,000	85,236	1,944,095	5,982,376	(1,721,499)	4,260,877
End of year	\$ 4,081,612	\$ 40,000	\$ 78,535	\$ 1,625,817	\$ 5,825,964	\$ (1,437,410)	\$ 4,388,554

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE 1: REPORTING ENTITY

Montgomery County Utility District No. 3 (the "District") was created by an Act of the 62nd Legislature of the State of Texas, Regular Session, 1971, in accordance with the Texas Water Code Chapter 54, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

The District is the manager and joint owner of the Montgomery County Utility District No. 3 Sewage Treatment Plant (the "Plant"). Oversight of the Plant is exercised by the Board of Directors of the District and financial activity of the Plant has been included as a component unit in the financial statements of the District. The Plant's General Fund has been reported as the Special Revenue Fund of the District. Transactions with the Plant are described in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the Montgomery County Utility District No. 3 Sewage Treatment Plant.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 5,825,964
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets, net		7,347,362
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (8,700,000)	
Bond discount	<u>32,356</u>	(8,667,644)
The assets in the Special Revenue Fund are owned by the District and the other district which is a participant in the wastewater treatment plant:		
The District's equity	(20,000)	
Other district's equity	<u>(20,000)</u>	(40,000)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Uncollected property taxes		17,575
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(94,703)</u>
Net position, end of year		<u>\$ 4,388,554</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ (156,412)
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 380,938	
Depreciation	<u>(400,922)</u>	(19,984)
<p>The issuance of long-term debt provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Principal reduction		305,000
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Issuance discount		(2,754)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Uncollected property taxes		(793)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>2,620</u>
Change in net position		<u>\$ 127,677</u>

NOTE 4: CAPITAL ASSETS

At December 31, 2019, "Invested in capital assets, net of related debt" was \$(1,320,282). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended December 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and easements	\$ 356,655	\$	\$	\$ 356,655
Construction in progress	<u>1,565</u>	<u>380,938</u>		<u>382,503</u>
Total capital assets not being depreciated	<u>358,220</u>	<u>380,938</u>	<u>0</u>	<u>739,158</u>
Depreciable capital assets:				
Water system	5,719,504			5,719,504
Sewer system	7,570,485			7,570,485
Drainage system	<u>911,835</u>			<u>911,835</u>
Total depreciable capital assets	<u>14,201,824</u>	<u>0</u>	<u>0</u>	<u>14,201,824</u>
Less accumulated depreciation for:				
Water system	(2,866,106)	(200,971)		(3,067,077)
Sewer system	(3,569,991)	(193,724)		(3,763,715)
Drainage system	<u>(756,601)</u>	<u>(6,227)</u>		<u>(762,828)</u>
Total accumulated depreciation	<u>(7,192,698)</u>	<u>(400,922)</u>	<u>0</u>	<u>(7,593,620)</u>
Total depreciable capital assets, net	<u>7,009,126</u>	<u>(400,922)</u>	<u>0</u>	<u>6,608,204</u>
Total capital assets, net	<u>\$ 7,367,346</u>	<u>\$ (19,984)</u>	<u>\$ 0</u>	<u>\$ 7,347,362</u>
Changes to capital assets:				
Capital outlay		\$ 380,938	\$	
Less depreciation expense for the fiscal year		<u>(400,922)</u>		
Net increases / decreases to capital assets		<u>\$ (19,984)</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the year ended December 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Tax bonds payable	\$ 3,940,000	\$	\$ 125,000	\$ 3,815,000	\$ 125,000
Less deferred amounts:					
For issuance discounts	(35,110)		(2,754)	(32,356)	(2,675)
Revenue bonds payable	<u>5,065,000</u>		<u>180,000</u>	<u>4,885,000</u>	<u>190,000</u>
Total bonds payable	<u>8,969,890</u>	<u>0</u>	<u>302,246</u>	<u>8,667,644</u>	<u>312,325</u>
Total long-term liabilities	<u>\$ 8,969,890</u>	<u>\$ 0</u>	<u>\$ 302,246</u>	<u>\$ 8,667,644</u>	<u>\$ 312,325</u>

Developer Construction Commitments and Liabilities

At December 31, 2019, there were no developer construction commitments or liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Bonds voted	\$ 28,935,000
Bonds approved for sale and sold	11,175,000
Bonds voted and not issued	17,760,000
Refunding bonds voted	11,000,000
Bonds approved for sale and sold	0
Bonds voted and not issued	11,000,000

Tax Bonds

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

The bond issues payable at December 31, 2019, were as follows:

	<u>Series 2014</u>
Amounts outstanding, December 31, 2019	\$3,815,000
Interest rates	3.00% to 3.75%
Maturity dates, serially beginning/ending	April 1, 2020/2039
Interest payment dates	April 1/October 1
Callable dates	April 1, 2021*

*Or any date thereafter at par plus accrued interest to the date of redemption, in whole or in part at the option of the District.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 125,000	\$ 127,750	\$ 252,750
2021	125,000	124,000	249,000
2022	125,000	120,250	245,250
2023	150,000	116,125	266,125
2024	150,000	111,625	261,625
2025 - 2029	825,000	486,376	1,311,376
2030 - 2034	1,025,000	332,672	1,357,672
2035 - 2039	<u>1,290,000</u>	<u>126,421</u>	<u>1,416,421</u>
	<u>\$ 3,815,000</u>	<u>\$ 1,545,219</u>	<u>\$ 5,360,219</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Revenue Bonds

The bonds are payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

The bond issues payable at December 31, 2019, were as follows:

	<u>Series 2011</u>
Amounts outstanding, December 31, 2019	\$4,885,000
Interest rates	4.14% to 5.44%
Maturity dates, serially beginning/ending	April 1, 2020/2036
Interest payment dates	April 1/October 1
Callable dates	October 1, 2021*

*Or any date thereafter at par plus accrued interest to the date of redemption, in whole or in part at the option of the District, in inverse order of maturity.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 190,000	\$ 245,251	\$ 435,251
2021	200,000	236,978	436,978
2022	210,000	227,923	437,923
2023	220,000	218,105	438,105
2024	230,000	207,608	437,608
2025 - 2029	1,335,000	850,756	2,185,756
2030 - 2034	1,700,000	456,162	2,156,162
2035 - 2036	<u>800,000</u>	<u>44,064</u>	<u>844,064</u>
	<u>\$ 4,885,000</u>	<u>\$ 2,486,847</u>	<u>\$ 7,371,847</u>

The Series 2011 Bond Order established a Reserve Account to be used to pay principal of and interest on the bonds when there is not sufficient money for such purpose. The District is to deposit into the Reserve Account equal monthly installments of 1/60 of the Reserve Requirement for 60 months following issuance of the bonds until such time that the balance in the Reserve Account equals the average debt service of the outstanding bonds (the Reserve Requirement). At December 31, 2019, the Reserve Requirement was fully funded in the amount of \$433,638.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6: PROPERTY TAXES

The Montgomery Central Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Tax Bond Order requires that the District 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, after taking into account other funds available.

At an election held July 19, 1972, the voters within the District authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On September 16, 2019, the District levied the following ad valorem taxes for the 2019 tax year and the 2020 fiscal year on the adjusted taxable valuation of \$268,472,167:

	Rate	Amount
Maintenance	\$ 0.0899	\$ 241,245

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2019 tax year total property tax levy	\$ 241,245
2019 tax year total property tax levy deferred to 2020 fiscal year	(241,245)
2018 tax year total property tax levy reported in 2019 fiscal year	217,491
Appraisal district adjustments to prior year taxes	(1,657)
Statement of Activities property tax revenues	\$ 215,834

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$1,482,508 and the bank balance was \$1,433,545. Of the bank balance, \$372,051 was covered by federal insurance and \$1,061,494 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$4,776,410.

Deposits and temporary investments restricted by state statutes and the Bond Orders:

General Fund

For payment of debt principal and interest

Cash	<u>\$ 433,638</u>
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Debt Service Fund

For payment of debt principal and interest, paying agent fees and costs of assessing and collecting taxes:

Cash	<u>\$ 206,967</u>
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Capital Projects Fund

For construction of capital assets:

Cash	\$ 13,300
Temporary investments	<u>1,578,402</u>
	<u>\$ 1,591,702</u>

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At December 31, 2019, the District had physical damage and boiler and machinery coverage of \$20,075,000, contractor's equipment coverage of \$45,000, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, auto liability coverage of \$1,000,000, pollution liability coverage of \$1,000,000, umbrella liability coverage of \$1,000,000, worker's compensation coverage of \$1,000,000, and consultant's crime coverage of \$100,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: SEWAGE TREATMENT CONTRACTS

The District is the owner and manager of the Montgomery County Utility District No. 3 Sewage Treatment Plant (the "Plant"). On September 21, 1987, the District and Montgomery County Utility District No. 4 entered into an Amended and Restated Water Supply and Sanitary Sewer Contract which replaced the prior agreement. The term of the Restated Agreement is 40 years. At December 31, 2019, ownership of each participating district's operating capacity in the 950,000 gallons per day ("GPD") Plant was as follows: Montgomery County Utility District No. 3 -- 475,000 GPD; Montgomery County Utility District No. 4 -- 475,000 GPD. The City of Conroe has reserved 150,000 GPD of each district's capacity beginning on January 1, 2015. Oversight of the Plant is exercised by the Board of Directors of the District and financial activity of the Plant has been included in the financial statements of the District. The Plant's General Fund has been reported as the Special Revenue Fund of the District. Construction costs of the Plant are funded by the contribution of funds from each participating district. Expansion costs of the Plant are to be based upon each participant's share of the expansion. The Plant issues no debt.

Each participant is responsible only for its share of the operating costs of the Plant. Participants are billed a monthly amount which is based upon actual costs incurred during the prior month as allocated based upon capacity owned and the number of equivalent connections within each participating district. As further described in Note 11, the City of Conroe shares in the operating costs to a limited extent. The District has contributed \$20,000 of the Plant's \$40,000 operating reserve. The District's share of operating costs was \$216,133 for the year ended December 31, 2019.

In 1998, the District leased 100,000 GPD of its capacity in the Plant to a private development company for a two year period. This lease has continued on a month to month basis. Under the terms of the lease, the development company pays \$5.50 per 1,000 gallons of flow into the Plant from the area served by the development company. The District recorded revenues of \$113,009 during the year ended December 31, 2019, from this lease.

NOTE 10: GROUNDWATER CONSERVATION DISTRICT AND GROUNDWATER REDUCTION PLAN

The District is within the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"). The LSGCD was created by the Legislature of the State of Texas in Acts 2001, 77th Legislature, Regular Session. The LSGCD is a political subdivision of the State of Texas, governed by an elected seven member board of directors. The purpose of the LSGCD is to provide for the conservation, preservation, protection, recharging, and prevention of waste and excessive depletion of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence which may be caused by the withdrawal of water from those groundwater reservoirs or their subdivisions, consistent with the objectives of Section 59, Article XVI, Texas Constitution. Rule 8.1 of the rules of the LSGCD authorizes the board of directors of the LSGCD to establish by resolution a regulatory water use fee to accomplish the purposes of the LSGCD. In accordance with this rule, as of September 30, 2019, the LSGCD had established a regulatory water use fee of \$0.105 per 1,000 gallons of water pumped from each regulated well. The District's well regulatory water use fees payable to the LSGCD for the fiscal year ended December 31, 2019, were \$20,166.

As of December 31, 2019, the Groundwater District's Board and Consultants were working on replacement regulations to accomplish their objectives found in their Groundwater Management Plan.

Previous regulations included reductions in groundwater pumping within the Gulf Coast Aquifer system, and they have been declared invalid by a Montgomery County Court. This was due to a lawsuit against the Lone Star Groundwater Conservation District by several Large Volume Groundwater Users (LVGUs) in Montgomery County. The ruling was confirmed and signed by the Judge on May 15, 2019, ending the lawsuit.

The District was not a party to this lawsuit, and was in compliance with the previous regulations requiring reduced groundwater pumping. By investing in a deeper water well in the Catahoula Aquifer (not part of the Gulf Coast Aquifer System), the District has successfully accessed another water supply for the future..

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT

In February 2013, the District entered into a Strategic Partnership Agreement (“SPA”) with the City of Conroe, Texas, as authorized by Texas Local Government Code, Chapter 43. The SPA provides for a “full purpose annexation” of the District by the City effective December 31, 2014. The SPA also provides that the District will continue to exist as a “limited district” after the annexation, with powers and functions provided by law, including water, wastewater, storm sewer and solid waste services, and also including the power to levy taxes and collect user fees. The District will continue to be responsible for maintenance of its water and wastewater system.

For time periods after December 31, 2014, the City has agreed to: (1) pay \$0.05 per \$100 of assessed valuation plus \$60,000 annually to the District in consideration for services to be provided by the District; (2) pay a share of the non-flow related expenses related to the wastewater treatment plant partly owned by the District as a reservation fee for 150,000 gallons per day of capacity in the plant reserved for the City by the District; (3) after deliveries of sewage from the City begin, pay a share of other wastewater treatment plant expenses; (4) make payments to the District each year from 2015 to 2036 to defray District debt service incurred for the most recent expansion of the wastewater treatment plant; and (5) make certain payments in the years 2015, 2016 and 2017 to defray part of a lease-purchase obligation previously incurred by the District. During the year ended December 31, 2019, the City paid \$649,938 to the District and \$83,884 to the Special Revenue Fund under these provisions. At this date, the City had advanced \$97,238 to the Special Revenue Fund for the City’s share of the 2020 non-flow related expenses related to the wastewater treatment plant.

Under the SPA, the District’s existence as a “limited district” is for an initial ten-year term, subject to extension and (in some circumstances) early termination and dissolution. If the District’s existence as a “limited district” expires, or if the District is dissolved, the City is required to (1) take over all the property and other assets of the District, (2) assume all the debts, liabilities and other obligations of the District, and (3) perform all the functions of the District, including the provision of services. Under the SPA, there is also a possibility that the District could transfer its service obligations to the City but remain in existence “for the restricted purposes of levying and collecting an ad valorem tax to pay interest and principal on the remaining tax debt of the District.”

A summary of the debt service related payments due from the City of Conroe is as follows:

Fiscal Years Ending December 31	WWTP
2020	\$ 472,191
2021	473,918
2022	474,863
2023	475,045
2024	474,548
2025-2029	2,370,458
2030-2034	2,193,101
2035-2036	844,064
	\$ 7,778,188

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 200,000	\$ 200,000	\$ 216,426	\$ 16,426
Water service	530,000	530,000	373,681	(156,319)
Sewer service	660,000	660,000	531,153	(128,847)
Bulk sewer service	78,000	78,000	113,009	35,009
Surface water fees	9,000	9,000	1,982	(7,018)
Penalty	7,500	7,500	6,875	(625)
Tap connection and inspection fees	25,000	25,000	24,653	(347)
Reimbursement from the City of Conroe	627,610	627,610	649,938	22,328
Interest on deposits and investments	30,000	30,000	71,710	41,710
Other revenues	15,000	15,000	13,802	(1,198)
TOTAL REVENUES	<u>2,182,110</u>	<u>2,182,110</u>	<u>2,003,229</u>	<u>(178,881)</u>
EXPENDITURES				
Service operations:				
Purchased sewer services	255,000	255,000	216,133	(38,867)
Professional fees	221,000	221,000	234,868	13,868
Contracted services	99,000	99,000	87,685	(11,315)
Utilities	15,000	15,000	12,500	(2,500)
Regulatory water use fees	20,000	20,000	20,166	166
Repairs and maintenance	531,360	531,360	490,841	(40,519)
Other operating expenditures	38,500	38,500	40,436	1,936
Garbage disposal	215,000	215,000	215,450	450
Administrative expenditures	97,200	97,200	81,404	(15,796)
Capital outlay	7,500	7,500	38,769	31,269
Debt service:				
Principal retirement	180,000	180,000	180,000	0
Interest and fees	252,550	252,550	254,050	1,500
TOTAL EXPENDITURES	<u>1,932,110</u>	<u>1,932,110</u>	<u>1,872,302</u>	<u>(59,808)</u>
EXCESS REVENUES (EXPENDITURES)	<u>250,000</u>	<u>250,000</u>	<u>130,927</u>	<u>(119,073)</u>
OTHER FINANCING SOURCES (USES)				
Transfer (to) from other fund	(250,000)	(250,000)	(250,000)	0
Settlement proceeds	0	0	287,640	287,640
TOTAL OTHER FINANCIAL SOURCES (USES)	<u>(250,000)</u>	<u>(250,000)</u>	<u>37,640</u>	<u>287,640</u>
EXCESS SOURCES (USES)	0	0	168,567	168,567
FUND BALANCE, BEGINNING OF YEAR	<u>3,913,045</u>	<u>3,913,045</u>	<u>3,913,045</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 3,913,045</u>	<u>\$ 3,913,045</u>	<u>\$ 4,081,612</u>	<u>\$ 168,567</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From participants in plant:				
Montgomery County Utility District No. 3	\$ 231,362	\$ 231,362	\$ 216,133	\$ (15,229)
Montgomery County Utility District No. 4	238,600	238,600	227,368	(11,232)
City of Conroe	92,738	92,738	83,884	(8,854)
Interest on deposits	<u>750</u>	<u>750</u>	<u>183</u>	<u>(567)</u>
TOTAL REVENUES	<u>563,450</u>	<u>563,450</u>	<u>527,568</u>	<u>(35,882)</u>
EXPENDITURES				
Service operations:				
Professional fees	27,750	27,750	16,389	(11,361)
Contracted services	71,000	71,000	70,050	(950)
Utilities	85,000	85,000	63,185	(21,815)
Repairs and maintenance	130,000	130,000	125,800	(4,200)
Other operating expenditures	191,500	191,500	205,745	14,245
Administrative expenditures	43,200	43,200	46,399	3,199
Capital outlay	<u>15,000</u>	<u>15,000</u>	<u>0</u>	<u>(15,000)</u>
TOTAL EXPENDITURES	<u>563,450</u>	<u>563,450</u>	<u>527,568</u>	<u>(35,882)</u>
EXCESS REVENUES (EXPENDITURES)	0	0	0	0
FUND BALANCE, BEGINNING OF YEAR	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 0</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
DECEMBER 31, 2019

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

SCHEDULE OF SERVICES AND RATES

DECEMBER 31, 2019

1. Services Provided by the District during the Fiscal Year:

- | | | |
|--|--|--|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input checked="" type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input checked="" type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input checked="" type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other | | |

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$14.00	4,000	N	\$1.35	4,001 to 10,000
				1.80	10,001 to 15,000
				2.25	15,001 to 20,000
				2.75	20,001 to 25,000
				3.50	25,001 to 30,000
				5.00	Over 30,000
WASTEWATER:	\$32.00		Y		
SURCHARGE:	\$0.00				

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$22.10 Wastewater: \$32.00 Surcharge: \$0.00

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

SCHEDULE OF SERVICES AND RATES (Continued)

DECEMBER 31, 2019

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	0	0	1.0	0
< or = 3/4"	1,242	1,225	1.0	1,225
1"	22	21	2.5	53
1-1/2"	5	5	5.0	25
2"	29	27	8.0	216
3"	1	1	15.0	15
4"	1	1	25.0	25
6"	1	1	50.0	50
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>1,301</u>	<u>1,281</u>		<u>1,609</u>
Total Wastewater	<u>1,286</u>	<u>1,266</u>	1.0	<u>1,266</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 284,863 Total of UD 3 and UD 4 interconnected systems
 Gallons billed to customers (unaudited): 269,037 Total of UD 3 and UD 4 interconnected systems

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 94%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3EXPENDITURESFOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Totals (Memorandum Only)
CURRENT					
Purchased sewer services	\$ 216,133	\$ 0	\$ 0	\$ 0	\$ 216,133
Professional fees:					
Auditing	10,950	4,250			15,200
Legal	95,429		483		95,912
Engineering	128,489	12,139			140,628
	<u>234,868</u>	<u>16,389</u>	<u>483</u>	<u>0</u>	<u>251,740</u>
Contracted services:					
Bookkeeping	15,580	10,050			25,630
Operation and billing	72,105	60,000			132,105
Tax assessor-collector			404		404
Central appraisal district			1,915		1,915
	<u>87,685</u>	<u>70,050</u>	<u>2,319</u>	<u>0</u>	<u>160,054</u>
Utilities	<u>12,500</u>	<u>63,185</u>	<u>0</u>	<u>0</u>	<u>75,685</u>
Regulatory water use fees	<u>20,166</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,166</u>
Repairs and maintenance	<u>490,841</u>	<u>125,800</u>	<u>0</u>	<u>0</u>	<u>616,641</u>
Other operating expenditures:					
Sludge hauling		134,591			134,591
Chemicals		25,850			25,850
Laboratory costs	4,558	45,304			49,862
Inspection costs	11,257				11,257
Reconnection and transfer costs	16,507				16,507
TCEQ assessment	4,632				4,632
Other	3,482				3,482
	<u>40,436</u>	<u>205,745</u>	<u>0</u>	<u>0</u>	<u>246,181</u>
Garbage disposal	<u>215,450</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>215,450</u>
Administrative expenditures:					
Director's fees	16,500	7,200			23,700
Office supplies and postage	33,526	1,289			34,815
Insurance	18,452	32,585			51,037
Permit fees	3,180	4,884			8,064
Other	9,746	441			10,187
	<u>81,404</u>	<u>46,399</u>	<u>0</u>	<u>0</u>	<u>127,803</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3EXPENDITURES (Continued)FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY					
Authorized expenditures	\$ 33,385	\$	\$	\$ 347,553	\$ 380,938
Tap connection costs	5,384				5,384
	<u>38,769</u>	<u>0</u>	<u>0</u>	<u>347,553</u>	<u>386,322</u>
DEBT SERVICE					
Principal retirement	<u>180,000</u>	<u>0</u>	<u>125,000</u>	<u>0</u>	<u>305,000</u>
Interest and fees:					
Interest	252,550		131,500		384,050
Paying agent fees	1,500		500		2,000
	<u>254,050</u>	<u>0</u>	<u>132,000</u>	<u>0</u>	<u>386,050</u>
TOTAL EXPENDITURES	<u>\$ 1,872,302</u>	<u>\$ 527,568</u>	<u>\$ 259,802</u>	<u>\$ 347,553</u>	<u>\$ 3,007,225</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS					
Cash receipts from revenues excluding maintenance taxes	\$ 1,116,557	\$ 400,765	\$ 3,101	\$ 29,275	\$ 1,549,698
Maintenance tax collections			227,794		227,794
Maintenance tax transfers	210,000				210,000
City of Conroe payments	649,938				649,938
Settlement proceeds	287,640				287,640
Advance payment for treatment expenditures		97,238			97,238
Transfer from other fund			250,000		250,000
Increase in customer deposits	<u>550</u>				<u>550</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>2,264,685</u>	<u>498,003</u>	<u>480,895</u>	<u>29,275</u>	<u>3,272,858</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS					
Cash disbursements for:					
Current expenditures	1,172,725	488,815	2,732	347,553	2,011,825
Capital outlay	38,769				38,769
Debt service	434,050		257,000		691,050
Other fund				15,093	15,093
Other district				19,022	19,022
Transfer to other fund	250,000				250,000
Maintenance tax transfers			<u>210,000</u>		<u>210,000</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>1,895,544</u>	<u>488,815</u>	<u>469,732</u>	<u>381,668</u>	<u>3,235,759</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	369,141	9,188	11,163	(352,393)	37,099
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>3,956,474</u>	<u>125,446</u>	<u>195,804</u>	<u>1,944,095</u>	<u>6,221,819</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 4,325,615</u>	<u>\$ 134,634</u>	<u>\$ 206,967</u>	<u>\$ 1,591,702</u>	<u>\$ 6,258,918</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3
SCHEDULE OF TEMPORARY INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
TexPool				
No. 7955300001	Market	On demand	\$ 3,198,008	\$ 0
CAPITAL PROJECTS FUND				
TexPool				
No. 795530002	Market	On demand	\$ 1,578,402	\$ 0
Total – All Funds			\$ 4,776,410	\$ 0

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 103,282	\$ 2,262
Additions and corrections to prior year taxes	<u>(1,562)</u>	<u>(95)</u>
Adjusted receivable, beginning of year	101,720	2,167
2019 ADJUSTED TAX ROLL	<u>241,245</u>	<u>0</u>
Total to be accounted for	342,965	2,167
Tax collections: Current tax year	(141,683)	0
Prior tax years	<u>(86,111)</u>	<u>(201)</u>
RECEIVABLE, END OF YEAR	<u>\$ 115,171</u>	<u>\$ 1,966</u>
RECEIVABLE, BY TAX YEAR		
2009 and prior	\$ 3,341	\$ 969
2010	1,516	338
2011	1,508	269
2012	1,527	190
2013	1,919	99
2014	1,961	101
2015	463	0
2016	696	0
2017	941	0
2018	1,737	0
2019	<u>99,562</u>	<u>0</u>
RECEIVABLE, END OF YEAR	<u>\$ 115,171</u>	<u>\$ 1,966</u>

Fiscal year 2019 General Fund property tax revenue of \$216,426 under the modified accrual basis of accounting is comprised of prior tax year collections of \$86,111 during fiscal year 2019 and 2018 tax year collections of \$130,315 during fiscal year 2018.

Fiscal year 2019 Debt Service Fund property tax revenue of \$201 under the modified accrual basis of accounting is comprised of prior tax year collections of \$201 during fiscal year 2019.

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3TAXES LEVIED AND RECEIVABLE (Continued)FOR THE YEAR ENDED DECEMBER 31, 2019

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 62,387,110	\$ 36,935,190	\$ 31,209,600	\$ 31,099,645
Improvements	220,660,340	215,160,270	209,169,220	200,480,150
Personal property	8,893,376	9,121,798	9,635,788	9,332,379
Less exemptions	<u>(23,468,659)</u>	<u>(20,621,024)</u>	<u>(19,935,600)</u>	<u>(20,743,908)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 268,472,167</u>	<u>\$ 240,596,234</u>	<u>\$ 230,079,008</u>	<u>\$ 220,168,266</u>
TAX RATES PER \$100 VALUATION***				
Debt service tax rates	\$ 0.00000	\$ 0.00000	\$ 0.00000	\$ 0.00000
Maintenance tax rates*	<u>0.08990</u>	<u>0.09000</u>	<u>0.09000</u>	<u>0.09000</u>
TOTAL TAX RATES PER \$100 VALUATION***	<u>\$ 0.08990</u>	<u>\$ 0.09000</u>	<u>\$ 0.09000</u>	<u>\$ 0.09000</u>
TAX ROLLS	<u>\$ 241,245</u>	<u>\$ 217,491</u>	<u>\$ 208,021</u>	<u>\$ 198,920</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>58.7%**</u>	<u>99.2 %</u>	<u>99.6 %</u>	<u>99.7 %</u>

*Maximum tax rate approved by voters on July 19, 1972: \$1.00

**The District's taxes are usually levied in the fall and are not delinquent until after the following January 31.

***As described in Note 11 of the Notes to the Financial Statements, after December 31, 2014, the City of Conroe will make future payments to the District to defray a portion of the debt service obligations. The District has levied taxes after taking into account the future payments from the City of Conroe and other funds available.

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
DECEMBER 31, 2019

Series 2011 Revenue Bonds			
<u>Due During Fiscal Years Ending December 31</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 190,000	\$ 245,251	\$ 435,251
2021	200,000	236,978	436,978
2022	210,000	227,923	437,923
2023	220,000	218,105	438,105
2024	230,000	207,608	437,608
2025	240,000	196,346	436,346
2026	255,000	184,116	439,116
2027	265,000	171,009	436,009
2028	280,000	157,068	437,068
2029	295,000	142,217	437,217
2030	305,000	126,571	431,571
2031	325,000	109,984	434,984
2032	340,000	92,311	432,311
2033	355,000	73,576	428,576
2034	375,000	53,720	428,720
2035	390,000	32,912	422,912
2036	410,000	11,152	421,152
	<u>\$ 4,885,000</u>	<u>\$ 2,486,847</u>	<u>\$ 7,371,847</u>
TOTALS			

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)DECEMBER 31, 2019

<u>Due During Fiscal Years Ending December 31</u>	<u>Series 2014 Tax Bonds</u>		
	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 125,000	\$ 127,750	\$ 252,750
2021	125,000	124,000	249,000
2022	125,000	120,250	245,250
2023	150,000	116,125	266,125
2024	150,000	111,625	261,625
2025	150,000	107,125	257,125
2026	150,000	102,625	252,625
2027	175,000	97,750	272,750
2028	175,000	92,282	267,282
2029	175,000	86,594	261,594
2030	200,000	80,375	280,375
2031	200,000	73,625	273,625
2032	200,000	66,750	266,750
2033	200,000	59,750	259,750
2034	225,000	52,172	277,172
2035	225,000	44,015	269,015
2036	250,000	35,249	285,249
2037	250,000	25,875	275,875
2038	280,000	15,938	295,938
2039	<u>285,000</u>	<u>5,344</u>	<u>290,344</u>
TOTALS	<u>\$ 3,815,000</u>	<u>\$ 1,545,219</u>	<u>\$ 5,360,219</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>(1)</u>	<u>(2)</u>	<u>Totals</u>
Bond Series:	2011	2014	
Interest Rate:	4.14% to 5.44%	3.00% to 3.75%	
Dates Interest Payable:	April 1, October 1	April 1, October 1	
Maturity Dates:	April 1, 2020/2036	April 1, 2020/2039	
Bonds Outstanding at Beginning of Current Year	\$ 5,065,000	\$ 3,940,000	\$ 9,005,000
Less Retirements	<u>(180,000)</u>	<u>(125,000)</u>	<u>(305,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 4,885,000</u>	<u>\$ 3,815,000</u>	<u>\$ 8,700,000</u>
Current Year Interest Paid	<u>\$ 252,550</u>	<u>\$ 131,500</u>	<u>\$ 384,050</u>

Bond Descriptions and Original Amount of Issue

- (1) Montgomery County Utility District No. 3 Water and Sewer System Revenue Bonds, Series 2011 (\$5,420,000)
- (2) Montgomery County Utility District No. 3 Unlimited Tax Bonds, Series 2014 (\$4,240,000)

Paying Agent/Registrar

- (1) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- (2) Amegy Bank National Association, Houston, Texas

<u>Bond Authority</u>	<u>Tax and Revenue Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 28,935,000	\$ 0	\$ 11,000,000
Amount Issued:	11,175,000		0
Remaining to be Issued:	17,760,000		11,000,000

Net Debt Service Fund deposits and investments balances as of December 31, 2019: \$78,535
Average annual debt service payment for remaining term of all tax debt: 268,011

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED DECEMBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 216,426	\$ 207,494	\$ 198,342	\$ 186,998	\$ 804,022	10.8 %	10.5 %	9.5 %	9.0 %	30.9 %
Water service	373,681	362,556	352,607	349,864	352,742	18.7	18.4	16.9	16.9	13.6
Sewer service	531,153	502,275	488,573	484,752	477,478	26.5	25.4	23.4	23.5	18.4
Bulk sewer service	113,009	60,504	120,521	102,875	94,245	5.6	3.1	5.8	5.0	3.6
Surface water fees	1,982	7,864	8,086	6,356	9,622	0.1	0.4	0.4	0.3	0.4
Groundwater reduction fees	0	0	0	29,954	40,165	0.0	0.0	0.0	1.4	1.5
Penalty	6,875	7,860	7,271	7,202	6,577	0.3	0.4	0.3	0.3	0.3
Tap connection and inspection fees	24,653	133,403	27,647	26,691	27,714	1.2	6.8	1.3	1.3	1.1
Reimbursement from the City of Conroe	649,938	646,410	867,272	859,943	767,533	32.5	32.6	41.5	41.6	29.5
Interest on deposits and investments	71,710	32,844	5,122	3,482	3,331	3.6	1.7	0.2	0.2	0.1
Other revenues	13,802	12,843	15,380	10,903	14,981	0.7	0.7	0.7	0.5	0.6
TOTAL REVENUES	2,003,229	1,974,053	2,090,821	2,069,020	2,598,410	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Purchased services	216,133	201,701	212,885	237,157	184,635	10.8	10.2	10.2	11.5	7.1
Professional fees	234,868	196,137	164,656	186,973	215,549	11.7	9.9	7.9	9.0	8.3
Contracted services	87,685	88,386	87,990	90,855	103,832	4.4	4.5	4.2	4.4	4.0
Utilities	12,500	14,344	14,310	12,799	14,031	0.6	0.7	0.7	0.6	0.5
Regulatory water use fees	20,166	24,275	20,475	16,290	21,900	1.0	1.2	1.0	0.8	0.8
Repairs, maintenance and other operating exp.	531,277	652,895	549,192	664,918	633,689	26.5	33.1	26.3	32.1	24.5
Garbage disposal	215,450	212,745	200,043	181,545	179,049	10.8	10.8	9.6	8.8	6.9
Administrative expenditures	81,404	76,322	75,032	82,028	58,467	4.1	3.9	3.6	4.0	2.3
Capital outlay	38,769	58,027	38,230	51,583	266,143	1.9	2.9	1.8	2.5	10.2
Debt service:										
Principal retirement	180,000	175,000	390,719	371,835	268,503	9.0	8.9	18.7	18.0	10.3
Interest and fees	254,050	260,470	278,836	298,684	315,141	12.7	13.2	13.2	14.4	12.1
TOTAL EXPENDITURES	1,872,302	1,960,302	2,032,368	2,194,667	2,260,939	93.5	99.3	97.2	106.1	87.0
EXCESS REVENUES (EXPENDITURES)	\$ 130,927	\$ 13,751	\$ 58,453	\$ (125,647)	\$ 337,471	6.5 %	0.7 %	2.8 %	(6.1) %	13.0 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,281	1,276	1,269	1,259	1,230					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,266	1,261	1,254	1,244	1,215					

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED DECEMBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 201	\$ 26	\$ 79	\$ 402	\$ 46,071	6.5 %	0.9 %	2.9 %	7.2 %	66.5 %
Penalty and interest	2,837	2,730	2,508	4,996	22,887	91.5	91.6	91.5	89.1	33.0
Interest on deposits and investments	63	224	154	209	349	2.0	7.5	5.6	3.7	0.5
TOTAL REVENUES	<u>3,101</u>	<u>2,980</u>	<u>2,741</u>	<u>5,607</u>	<u>69,307</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Contracted services	483	780	824	2,472	5,894					8.5
Other expenditures	2,319	2,279	2,017	1,812	1,444					2.1
Debt service:										
Principal retirement	125,000	100,000	100,000	100,000	150,000					216.5
Interest and fees	<u>132,000</u>	<u>135,375</u>	<u>137,875</u>	<u>141,375</u>	<u>121,383</u>					<u>175.1</u>
TOTAL EXPENDITURES	<u>259,802</u>	<u>238,434</u>	<u>240,716</u>	<u>245,659</u>	<u>278,721</u>	N/A	N/A	N/A	N/A	<u>402.2</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ (256,701)</u>	<u>\$ (235,454)</u>	<u>\$ (237,975)</u>	<u>\$ (240,052)</u>	<u>\$ (209,414)</u>	N/A %	N/A %	N/A %	N/A %	<u>(302.2) %</u>
Transfer from other fund	<u>\$ 250,000</u>	<u>\$ 0</u>	<u>\$ 360,000</u>	<u>\$ 0</u>	<u>\$ 197,709</u>					

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSDECEMBER 31, 2019

Complete District Mailing Address: Montgomery County Utility District No. 3
P.O. Box 1268
Montgomery, Texas 77356

District Business Telephone No.: 936-588-1166

Submission date of the most recent District Registration Form: April 8, 2019

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid*</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Doris Hickman c/o Hays Utility North Corporation P.O. Box 1268 Montgomery, Texas 77356	Elected 5/05/18 5/07/22	\$ 6,300	\$ 12	President
Richard Tibbetts c/o Hays Utility North Corporation P.O. Box 1268 Montgomery, Texas 77356	Elected 5/05/18 5/07/22	3,150	0	Vice President
Janis Boulware c/o Hays Utility North Corporation P.O. Box 1268 Montgomery, Texas 77356	Elected 5/07/16- 5/02/20	3,450	684	Secretary
Carolyn H. Smith c/o Hays Utility North Corporation P.O. Box 1268 Montgomery, Texas 77356	Elected 5/07/16- 5/02/20	4,950	421	Treasurer
Judy Robert c/o Hays Utility North Corporation P.O. Box 1268 Montgomery, Texas 77356	Elected 5/05/18 5/07/22	2,250	534	Assistant Secretary

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 3

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

DECEMBER 31, 2019

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Norton Rose Fulbright US LLP 1301 McKinney Street, Suite 5100 Houston, Texas 77010	6/6/72	\$ 9,484	Attorney
James L. Dougherty, Jr. 12 Greenway Plaza, Suite 1100 Houston, Texas 77046	4/15/13	85,401	Attorney
Linebarger, Goggan, Blair & Sampson, L.L.P. P. O. Drawer 2789 Texas City, Texas 77592-2789	Prior to 12/31/2014	483	Delinquent Tax Attorney
Protocol Bookkeeping, Inc. 1506 Whispering Pines Houston, Texas 77055	11/22/82	33,695	Bookkeeper
Hays Utility North Corporation P.O. Box 1268 Montgomery, Texas 77356	1/1/94	1,039,367	Operator
Jones & Carter, Inc. 8701 New Trails Dr., Suite 200 The Woodlands, Texas 77381	Prior to 9/30/82	342,654	Engineer
Tammy J. McRae Montgomery County TAC 400 N. San Jacinto Conroe, Texas 77301	03/88	404	Tax Assessor- Collector
Montgomery Central Appraisal District P.O. Box 2233 Conroe, Texas 77305	Legislative Action	1,915	Central Appraisal District
The GMS Group, L.L.C. 5075 Westheimer, Suite 1175 Houston, Texas 77056	Prior to 10/1/92	0	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	10/20/08	15,200	Independent Auditor

See accompanying independent auditor's report.