

**SEPTEMBER 25, 2018, AMENDMENT to the
OFFICIAL STATEMENT DATED SEPTEMBER 11, 2018**

Relating to the issuance of:

\$7,100,000.00

**COLLIN COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3
UNLIMITED TAX ROAD BONDS, SERIES 2018**

UPDATES MADE:

Corrected the following sections to accurately reflect the use of proceeds, by removing all language referencing capitalized interest as a use of bond proceeds.

- 1. Page 7 – THE BONDS - Use of Proceeds**
- 2. Page 11 – THE BONDS – Funds**
- 3. Page 17 – USE AND DISTRIBUTION OF BOND PROCEEDS**
- 4. Page 28 – FINANCIAL INFORMATION CONCERNING THE DISTRICT (Unaudited)
– Table 3 – Debt Service Requirements**

OFFICIAL STATEMENT DATED SEPTEMBER 11, 2018 – AMENDED SEPTEMBER 25, 2018

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

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF COLLIN COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3 AND, UNDER THE STATUTES, REGULATIONS PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION, SUBJECT TO THE MATTERS DESCRIBED UNDER “TAX MATTERS” HEREIN.

THE BONDS WILL BE DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS—Qualified Tax Exempt Obligations for Financial Institutions.”

NEW ISSUE-BOOK-ENTRY-ONLY

Rating:

S&P: “AA/Stable Outlook” AGM Insured
(see “BOND INSURANCE” herein)

\$7,100,000
COLLIN COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3
(A political subdivision of the State of Texas located within Collin County)
UNLIMITED TAX ROAD BONDS
SERIES 2018

Dated: September 15, 2018

Due: September 15, as shown below

The \$7,100,000 Unlimited Tax Road Bonds, Series 2018 (the “Bonds”) are obligations solely of Collin County Water Control and Improvement District No. 3 (the “District”) and are not obligations of the State of Texas, Collin County, Texas, the Town of St. Paul, Texas, the City of Lucas, Texas, the City of Wylie, Texas, or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. INVESTMENT IN THE BONDS IS SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS.”

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially, ZB, National Association, dba Amegy Bank, in Houston, Texas (the “Paying Agent/Registrar”). Interest on the Bonds accrues from September 15, 2018 (the “Dated Date”), and is payable on each March 15 and September 15, commencing March 15, 2019, until maturity or prior redemption. The Bonds will be issued only in fully registered form in principal denominations of \$5,000 or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”

MATURITY SCHEDULE

CUSIP Prefix: 194749 (c)

\$4,315,000 Series Bonds

Principal Amount	Maturity (Sept. 15)	Interest Rate	Initial Yield (c)	CUSIP Suffix (b)	Principal Amount	Maturity (Sept. 15)	Interest Rate	Initial Yield (c)	CUSIP Suffix (b)
\$ 195,000	2020	6.000%	2.000%	EB9	\$ 255,000	2029 (a)	3.000%	3.200%	EL7
200,000	2021	6.000%	2.150%	EC7	265,000	2030 (a)	3.000%	3.300%	EM5
205,000	2022	6.000%	2.300%	ED5	275,000	2031 (a)	3.125%	3.400%	EN3
210,000	2023	6.000%	2.450%	EE3	285,000	2032 (a)	3.250%	3.500%	EP8
215,000	2024	5.000%	2.600%	EF0	300,000	2033 (a)	3.375%	3.600%	EQ6
225,000	2025	3.000%	2.750%	EG8	310,000	2034 (a)	3.500%	3.650%	ER4
230,000	2026	3.000%	2.900%	EH6	325,000	2035 (a)	3.500%	3.700%	ES2
240,000	2027	3.000%	3.000%	EJ2	335,000	2036 (a)	3.500%	3.750%	ET0
245,000	2028	3.000%	3.100%	EK9					

\$715,000 3.750% Term Bonds due September 15, 2038 at a Price of 98.889% to Yield 3.830% (a)(c) - CUSIP No. (b) EV5

\$775,000 3.750% Term Bonds due September 15, 2040 at a Price of 98.525% to Yield 3.850% (a)(c) - CUSIP No. (b) EX1

\$1,295,000 3.750% Term Bonds due September 15, 2043 at a Price of 97.932% to Yield 3.880% (a)(c) - CUSIP No. (b) FA0

- (a) The Underwriter (as defined herein) may designate one or more maturities as term bonds. See “THE BONDS—Redemption Provisions,” “OFFICIAL NOTICE OF SALE,” and “OFFICIAL BID FORM.”
- (b) Bonds maturing on and after September 15, 2029, are subject to redemption at the option of the District prior to their maturity dates in whole or from time to time in part, on September 15, 2028, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (“AGM”). (defined herein).



The Bonds are offered by the winning bidder for the Bonds (the “Underwriter”) subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Coats Rose P.C., Dallas, Texas, Bond Counsel. Certain legal matters will be reviewed by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as Disclosure Counsel to the District. See “LEGAL MATTERS.” Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about October 10, 2018.

SAMCO CAPITAL MARKETS, INC.

TABLE OF CONTENTS

MATURITY SCHEDULE.....	1	Table 5 - Historical Tax Collections.....	31
USE OF INFORMATION IN OFFICIAL STATEMENT.....	3	Table 6 - Tax Roll Information.....	31
SALE AND DISTRIBUTION OF THE BONDS.....	3	Table 7 - Principal Taxpayers.....	32
Award of the Bonds.....	3	Table 8 - Tax Adequacy for Debt Service.....	32
Prices and Marketability.....	3	TAXING PROCEDURES.....	33
Securities Laws.....	3	Authority to Levy Taxes.....	33
Municipal Bond Insurance.....	4	Property Tax Code and County-Wide Appraisal District.....	33
OFFICIAL STATEMENT SUMMARY.....	5	Property Subject to Taxation by the District.....	33
SELECTED FINANCIAL INFORMATION (UNAUDITED).....	9	General Residential Homestead Exemption.....	34
OFFICIAL STATEMENT.....	10	Valuation of Property for Taxation.....	34
THE BONDS.....	10	District and Taxpayer Remedies.....	34
General.....	10	Rollback of Operation and Maintenance Tax Rate.....	34
Description.....	10	Agricultural, Open Space, or Timberland Deferment.....	35
Authority for Issuance.....	10	Tax Abatement.....	35
Source and Security for Payment.....	10	Levy and Collection of Taxes.....	35
Outstanding Bonds.....	11	District's Rights in the Event of Tax Delinquencies.....	35
Funds.....	11	INVESTMENT CONSIDERATIONS.....	36
Redemption Provisions.....	11	General.....	36
Method of Payment of Principal and Interest.....	12	Economic Factors and Interest Rates.....	36
Registration and Transfer.....	12	Credit Markets and Liquidity in the Financial Markets.....	36
Replacement of Paying Agent/Registrar.....	12	Competition.....	36
Legal Investment and Eligibility to Secure Public Funds in		Development and Home Construction in the District.....	37
Texas.....	12	Undeveloped Acreage/Vacant Lots.....	37
Issuance of Additional Debt.....	13	Overlapping Debt and Taxes.....	37
Remedies in Event of Default.....	13	Landowners/Developer/Homebuilders Under No Obligation to the	
Defeasance.....	14	District.....	37
Annexation.....	14	Tax Collections Limitations and Foreclosure Remedies.....	37
Consolidation.....	14	Registered Owners' Remedies and Bankruptcy Limitations.....	38
BOOK-ENTRY-ONLY SYSTEM.....	14	Future Debt.....	38
USE AND DISTRIBUTION OF BOND PROCEEDS.....	17	Future and Proposed Legislation.....	39
BOND INSURANCE.....	17	Marketability of the Bonds.....	39
BOND INSURANCE RISKS.....	19	Continuing Compliance with Certain Covenants.....	39
THE DISTRICT.....	19	LEGAL MATTERS.....	39
General.....	19	Legal Opinions.....	39
Description and Location.....	20	Legal Review.....	40
Land Use.....	21	TAX MATTERS.....	40
Status of Development.....	21	Opinion.....	40
Future Development.....	21	Federal Income Tax Accounting Treatment of Original Issue	
THE DEVELOPER.....	22	Discount.....	41
Role of a Developer.....	22	Collateral Federal Income Tax Consequences.....	41
The Developer.....	22	State, Local and Foreign Taxes.....	42
Homebuilders.....	23	Qualified Tax-Exempt Obligations for Financial Institutions.....	42
MANAGEMENT OF THE DISTRICT.....	23	NO-LITIGATION CERTIFICATE.....	42
THE WATER, WASTEWATER AND DRAINAGE SYSTEM.....	24	NO MATERIAL ADVERSE CHANGE.....	43
Regulation.....	24	PREPARATION OF OFFICIAL STATEMENT.....	43
Wylie Northeast Special Utility District.....	24	Sources and Compilation of Information.....	43
Water Supply.....	24	Financial Advisor.....	43
Wastewater Treatment.....	25	Consultants.....	43
Water Distribution, Wastewater Collection and Storm Drainage		Updating the Official Statement.....	44
Facilities and Roads.....	25	Certification of Official Statement.....	44
Flood Protection.....	25	CONTINUING DISCLOSURE OF INFORMATION.....	44
THE ROAD SYSTEM.....	25	Annual Reports.....	44
DISTRICT OPERATING STATEMENT.....	26	Specified Event Notices.....	44
FINANCIAL INFORMATION CONCERNING THE		Availability of Information from the MSRB.....	45
DISTRICT (UNAUDITED).....	27	Limitations and Amendments.....	45
Table 1 - Assessed Value, Debt Ratios and Fund Balances.....	27	Compliance With Prior Undertakings.....	45
Investments of the District.....	27	MISCELLANEOUS.....	46
Anticipated Issuance of Additional Debt.....	27	DISTRICT LOCATION MAP	
Outstanding Road Bonds.....	27	PHOTOGRAPHS OF THE DISTRICT	
Outstanding Utility Bonds.....	27	APPENDIX A – Annual Financial Report of the District for the year ended	
Table 2 - Unlimited Tax Bonds Voted Authorization.....	28	August 31, 2017 and unaudited statement of revenues and expenses of the	
Table 3 - Debt Service Requirements.....	28	District's General Fund for Fiscal Year ended July 31, 2018	
Estimated Overlapping Debt and Taxes.....	29	APPENDIX B - Operating and Debt Service Budget of the District for the	
TAX DATA.....	30	year ended August 31, 2018	
Debt Service Tax.....	30	APPENDIX C – Estimate of Taxable Assessed Value as of July 23, 2018	
Maintenance Tax.....	30	APPENDIX D - Form of Bond Counsel's opinion	
Contract Tax.....	30	APPENDIX E – Specimen Municipal Bond Insurance Policy	
Tax Exemptions.....	30		
Table 4 - Tax Rate Distribution.....	31		

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, orders, contracts, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Coats Rose P.C., 14755 Preston Road, Suite 600, Dallas, Texas, 75254.

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, United States Securities and Exchange Commission Rule 15c2-12.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") paying the interest rates shown on the cover page hereof, at a price of 97.303391% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.811215%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

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

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

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The

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

Municipal Bond Insurance

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “Bond Insurance” and “Appendix E - Specimen Municipal Bond Insurance Policy”.

Municipal Bond Rating

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), will assign its municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

(Continues on following page.)

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

Description...

In an order dated March 15, 2011, the Texas Commission on Environmental Quality (the “TCEQ”), pursuant to a Petition of Lavon 593 Land Investment Partners, L.P., granted the creation of Collin County Water Control and Improvement District No. 3 (the “District”). The District was granted road powers by Senate Bill 1852 (2013), codified at Chapter 9043, Texas Special District Local Laws Code. The District is a conservation and reclamation district and political subdivision of the State of Texas and operates pursuant to Article 16, Section 59 and Article 3, Section 52 of the Texas Constitution, and Chapters 49 and 51, Texas Water Code, as amended. The District currently contains approximately 593 acres of land. See “THE BONDS—General” and “THE DISTRICT.”

Location...

The District is located approximately 28 miles north of the central downtown business district of the City of Dallas, Texas. The District is not located within the corporate limits of any municipality, however portions of the District are located partially within the extraterritorial jurisdictions of the Town of St. Paul, Texas, City of Lucas, Texas and the City of Wylie, Texas. The District is within the boundary of the Wylie Independent School District (“Wylie ISD”). The District is located along Parker Road near Lake Lavon, adjacent to the Town of St. Paul, Texas.

The Developer...

The developer of the Phase 1 and 2 land within the District is HC Inspiration One, LLC (“HC Inspiration”), a Texas limited liability company, which was created to own and develop Phase 1 and 2 of the property within the District. The developer of the Phase 3, 4 and 5 land within the District is St. Paul Inspiration, LLC (“St. Paul Inspiration”), which was created to own and develop Phases 3, 4 and 5 of the property within the District. Two affiliates of HC Inspiration and St. Paul Inspiration, Parker Lakeside, LLC (“Parker Lakeside”), a Texas limited liability company, and Union Valley Ranch, L.P. (“Union Valley”), a Texas limited partnership, also own significant portions of land within the District. Parker Lakeside and Union Valley also own HC Inspiration. The portions of the land within the District owned by Parker Lakeside and Union Valley are currently planned to be developed as future phases of the “Inspiration” community by affiliates of those entities.

HC Inspiration, St. Paul Inspiration, Parker Lakeside and Union Valley are controlled by entities affiliated with Phillip Huffines and Donald Huffines. Development and management tasks of the property owned by HC Inspiration and St. Paul Inspiration are carried out through employees of Huffines Management Partners, LP, a Texas limited partnership, which is part of a group of entities doing business under the name “Huffines Communities” (“Huffines”). Phillip Huffines and Donald Huffines control Huffines. HC Inspiration, St. Paul Inspiration, Parker Lakeside, Union Valley, Huffines and their affiliates are collectively referred to herein as the Huffines Entities. See “THE DEVELOPER.”

Status of Development...

The District is being developed as Inspiration, a predominantly single-family residential development. Development currently consists of 331 acres of Inspiration, Phase 1A-1, Phase 1A-2, Phase 1B, Phase 2A, Phase 2B, Phase 3A, Phase 3B-1, Phase 3B-3, Phase 3C and Phase 5A-1 (821 single-family residential lots and approximately 17 acres of open space). In addition, there is a 1.2 acre resort style swimming complex and clubhouse and a 10 acre school site, upon which George Bush Elementary (Wylie ISD) opened in August 2016. Construction is also in progress on 78 lots in Phases 3, 4 and 5. As of August 1, 2018, there were 529 completed single-family homes (497 occupied), 9 model homes, 1593 new homes under construction and 124 vacant developed lots available for home construction. See “THE DISTRICT—Land Use—Status of Development.”

Homebuilders...

Homebuilding in the District is being conducted by Bloomfield Homes, L.P. d/b/a Bloomfield Homes; First Texas Homes, Inc.; Gehan Homes, Ltd; Highland Homes, Ltd; Pulte Homes of Texas, L.P.; Shaddock Homes, Ltd., d/b/a Saxony Homes; and Castlerock Communities L.P., d/b/a Mercury Homes. The contracts for sale of lots between HC Inspiration and its builders and St. Paul Inspiration and its builders require that earnest money be deposited with a title company and establish certain required purchases on a fixed schedule. HC Inspiration's and St. Paul Inspiration's sole remedies for homebuilders not purchasing lots in accordance with the contracts is cancellation of the contract and retention of earnest money. All of the builders are current with lot takedown requirements.

(Continues on following page)

THE BONDS

<i>Description...</i>	<p>\$7,100,000 Unlimited Tax Road Bonds, Series 2018 (the “Bonds”) are being issued as fully registered bonds pursuant to an order (the “Bond Order”) authorizing the issuance of the Bonds to be adopted at the date of the sale of the Bonds by the District’s Board of Directors (the “Board”). The Bonds are scheduled to mature on the dates and in the principal amounts and pay interest at the rates shown on the cover page hereof. The Bonds will be issued in book-entry form only in principal denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from September 15, 2018 and is payable on March 15, 2019, and on each September 15 and March 15 thereafter until the earlier of maturity or redemption. See “THE BONDS” and “BOOK-ENTRY-ONLY SYSTEM.”</p>
<i>Redemption...</i>	<p>Bonds maturing on and after September 15, 2029 are subject to redemption in whole or from time to time in part, at the option of the District, prior to their maturity dates on September 15, 2028, and on any date thereafter at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”</p>
<i>Use of Proceeds...</i>	<p>Proceeds of the Bonds will be used to pay for roads, improvements in aid thereof, and other related costs, including land costs and engineering fees, as shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to pay interest on funds advanced by the Developer on behalf of the District; and pay certain other costs related to the issuance of the Bonds.</p>
<i>Authority for Issuance...</i>	<p>The Bonds are issued pursuant to the Bond Order, the Texas Constitution and the general laws of the State of Texas, Chapter 9043, Texas Special District Local Laws Code and an election held within the boundaries of the District. See “THE BONDS—Authority for Issuance.”</p>
<i>Source of Payment...</i>	<p>Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the Town of St. Paul, Texas, the City of Lucas, Texas, the City of Wylie, Texas, Collin County, Texas, the State of Texas or any entity other than the District. See “THE BONDS—Source and Security for Payment.”</p>
<i>Outstanding Bonds...</i>	<p>The Bonds are the District’s fourth series of unlimited tax road bonds. The District has previously issued its Unlimited Tax Road Bonds, Series 2015, Unlimited Tax Road Bonds, Series 2016 and Unlimited Tax Road Bonds, Series 2017, which together are currently outstanding in the aggregate principal amount of \$15,745,000 (the “Outstanding Road Bonds”) and its Unlimited Tax Utility Bonds, Series 2017 currently outstanding in the principal amount of \$4,700,000 (the “Outstanding Utility Bonds”).</p>
<i>Payment Record...</i>	<p>The District has never defaulted in the payment of its tax supported debt. See “THE BONDS—Authority for Issuance.”</p>
<i>Qualified Tax-Exempt Obligations...</i>	<p>The District will designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”</p>
<i>Municipal Bond Rating</i>	<p>The Bonds are rated “AA” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) by virtue of a municipal bond insurance policy to be issued by AGM upon delivery of the Bonds to the Initial Purchaser. No application for an underlying rating on the Bonds has been made. (See “BOND INSURANCE” and “OTHER INFORMATION – Ratings”).</p>
<i>Municipal Bond Insurance</i>	<p>The Bonds are additionally secured by a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by AGM (see “BOND INSURANCE”). The purchase of such insurance and the payment of all associated costs will be at the expense of the Initial Purchaser.</p>
<i>Bond Counsel...</i>	<p>Coats Rose, P.C., Dallas, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS” and “TAX MATTERS.”</p>

<i>General Counsel...</i>	Coats Rose, P.C., Dallas, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Disclosure Counsel...</i>	Orrick, Herrington & Sutcliffe LLP, Houston, Texas.
<i>Financial Advisor...</i>	Hilltop Securities Inc., Dallas, Texas.
<i>Paying Agent/Registrar...</i>	ZB, National Association, dba Amegy Bank, Houston, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

INVESTMENT CONSIDERATIONS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “INVESTMENT CONSIDERATIONS.”

(Continues on following page)

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2018 Certified Net Taxable Assessed Valuation	\$ 204,297,769 ⁽¹⁾
Estimated Net Taxable Assessed Valuation as of July 23, 2018	\$ 249,000,000 ⁽²⁾
Direct Debt	
Outstanding Bonds	\$ 20,445,000
The Bonds	7,100,000
Direct Debt Outstanding	\$ 27,545,000
Estimated Overlapping Debt	\$ 9,369,518 ⁽³⁾
Total Gross Direct Debt and Estimated Overlapping Debt	\$ 36,914,518
Ratio of Gross Direct Debt to:	
2018 Certified Net Taxable Assessed Valuation	13.48%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:	
2018 Certified Net Taxable Assessed Valuation	18.07%
Ratio of Gross Direct Debt to:	
Estimated Net Taxable Assessed Valuation as of July 23, 2018	11.06%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:	
Estimated Net Taxable Assessed Valuation as of July 23, 2018	14.83%
Average Annual Debt Service Requirement (2019-2043)	\$ 1,658,023
Maximum Annual Debt Service Requirement (2041)	\$ 1,737,175
Tax Rate Required to Pay Average Annual Debt Service (2019-2043) at a 95% Collection Rate Based upon 2018 Certified Net Taxable Assessed Valuation	\$ 0.8543
Tax Rate Required to Pay Maximum Annual Debt Service (2041) at a 95% Collection Rate Based upon 2018 Certified Taxable Assessed Valuation	\$ 0.8951
Tax Rate Required to Pay Average Annual Debt Service (2018-2042) at a 95% Collection Rate Based upon Estimated Net Taxable Assessed Valuation as of July 23, 2018	\$ 0.7009
Tax Rate Required to Pay Maximum Annual Debt Service (2041) at a 95% Collection Rate Based upon Estimated Net Taxable Assessed Valuation as of July 23, 2018	\$ 0.7344
2018 Tax Rates	(4)
Road Bonds Debt Service	\$ 0.6689
Utility Bonds Debt Service	\$ 0.1311
Maintenance and Operations	0.2000
Total	\$ 1.0000
General Fund Balance as of 9/11/2018	\$ 64,916 ⁽⁵⁾
Road Bond Debt Service Fund Balance as of 9/11/2018	\$ 1,631,589 ⁽⁶⁾
Utility Bond Debt Service Fund Balance as of 9/11/2018	\$ 718,435 ⁽⁷⁾
Status of Estimated Home Construction as of August 31, 2018 ⁽⁸⁾	
Single Family Homes Completed and Occupied	524
Single Family Homes Completed - Models	9
Single Family Homes Completed and Unoccupied	32
Single Family Homes Under Construction	145
Total	710
Status of Lot Production and Ownership as of August 31, 2018 ⁽⁸⁾	
Developed Lots Owned by Developer ⁽⁹⁾	17
Developed Lots Owned by Homebuilders	94
Developed Lots Owned by Homeowners	524
Lots Under Construction Owned by Developer ⁽⁹⁾	455
Total	1,090

(1) As certified by the Collin Central Appraisal District (the "Appraisal District") on July 16, 2018. Includes \$4,383,956 under protest as of certification.

(2) As estimated by the Appraisal District.

(3) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED) – Estimated Overlapping Debt and Taxes."

(4) The District adopted a \$1.0000 tax rate for Tax Year 2018 on September 11, 2018. The tax rate consists of a maintenance and operations tax rate of \$0.2000, a debt service tax rate of \$0.1311 to make debt service payments on the outstanding utility bonds and any additional utility bonds issued in the future and a debt service tax rate of \$0.6689 to make debt service payments on the Bonds, the outstanding road bonds and any additional road bonds issued in the future. The District has established a separate utility bond debt service fund and a separate road bond debt service fund. Taxes collected and deposited to the road bond debt service fund cannot be used to pay debt service on the outstanding utility bonds or any future utility bonds. Likewise, taxes collected and deposited to the utility debt service fund cannot be used to pay debt service on the Bonds, the outstanding road bonds or any future road bonds.

(5) No more developer advances are included in the District's operating budget as of Fiscal Year 2019.

(6) Any Funds in the road bond debt service fund are pledged only to pay the debt service on the Bonds, the outstanding Road Bonds and any additional road bonds. Neither Texas law nor the Bond Order require the District to maintain any minimum balance in the road bond debt service fund.

(7) Neither Texas law nor the Bond Order require the District to maintain any minimum balance in the utility bond debt service fund. Any funds in the utility bond debt service fund are pledged only to pay the debt service on the Outstanding Utility Bonds and any additional utility bonds.

(8) As reported by the Developer.

(9) All but 5 developer owned finished lots and lots under construction are under contract with homebuilders.

OFFICIAL STATEMENT

\$7,100,000

COLLIN COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3

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

UNLIMITED TAX ROAD BONDS SERIES 2018

This Official Statement provides certain information in connection with the issuance by Collin County Water Control and Improvement District No. 3 (the "District") of its \$7,100,000 Unlimited Tax Road Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, Chapter 9043, Texas Special District Local Laws Code, an order authorizing the issuance of the Bonds (the "Bond Order"), to be adopted on the date of the sale of the Bonds by the Board of Directors of the District (the "Board"), and an election held within the District on November 5, 2013.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, HC Inspiration One, LLC ("HC Inspiration" or the "Developer") and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Coats Rose, P.C., General Counsel, 14755 Preston Road, Suite 600, Dallas, Texas, 75254.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. The Bond Order will authorize the issuance and sale of the Bonds and prescribe the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

Description

The Bonds will be dated and accrue interest from September 15, 2018, with interest payable on March 15, 2019, and on each September 15 and March 15 thereafter (each an "Interest Payment Date") until maturity or prior redemption. The Bonds mature on September 15 in each of the years and in the amounts, and pay interest at the rates, shown on the cover page hereof. The Bonds will be initially registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein. See "BOOK-ENTRY-ONLY SYSTEM."

Authority for Issuance

At an election held within the District on November 5, 2013, voters of the District authorized the issuance of \$63,000,000 principal amount of unlimited tax bonds for purposes of providing road facilities and the Bonds are issued pursuant to such authorization.

The Bonds are issued by the District pursuant the terms and conditions of the Bond Order, Article III, Section 52 of the Texas Constitution; Chapters 49 and 51, of the Texas Water Code, as amended, Chapter 9043, Texas Special District Local Laws Code and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Source and Security for Payment

The Bonds and any additional tax bonds issued in the future, will be payable from and secured by a pledge of the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. The District also levies a separate annual ad valorem tax, without legal limitation as to rate or amount, levied

upon all taxable property located within the District for the payment of its utility bonds, including the Outstanding Utility Bonds (hereinafter defined). Taxes collected and deposited to the road bond debt service fund cannot be used to pay debt service on the Outstanding Utility Bonds or any future utility bonds. Likewise, taxes collected and deposited to the utility bond debt service fund cannot be used to pay debt service on the Bonds, the Outstanding Road Bonds (as defined herein) or any future road bonds. See “TAXING PROCEDURES.” The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See “INVESTMENT CONSIDERATIONS.” The Bonds are obligations solely of the District and are not obligations of the Town of St. Paul, the City of Lucas, the City of Wylie, Collin County, the State of Texas or any political subdivision or entity other than the District.

Outstanding Bonds

The Bonds are the District’s fourth series of unlimited tax road bonds. The District has previously issued its Unlimited Tax Road Bonds, Series 2015, Unlimited Tax Road Bonds, Series 2016 and Unlimited Tax Road Bonds, Series 2017, which together are currently outstanding in the aggregate principal amount of \$15,745,000 (the “Outstanding Road Bonds”) and its Unlimited Tax Utility Bonds, Series 2017 which are currently outstanding in the amount of \$4,700,000 (the “Outstanding Utility Bonds”).

Funds

The Bond Order creates a Series 2018 Road Capital Projects Fund (the “Construction Fund”) and a Series 2018 Road Debt Service Fund (the “Road Bond Debt Service Fund”). Accrued interest on the Bonds will be deposited from the proceeds from the sale of the Bonds into the Road Bond Debt Service Fund. All remaining proceeds of the Bonds will be deposited in the Construction Fund or used to pay costs of issuance. The Road Bond Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds. Amounts on deposit in the Road Bond Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar (as herein defined), to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds. The District also maintains a separate utility bond debt service fund for the payment of debt service on its Outstanding Utility Bonds.

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on and after September 15, 2029, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 15, 2028, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District, provided that if fewer than all the Bonds within a particular maturity are redeemed at any time, the particular Bonds within each such maturity to be redeemed shall be selected by the Paying Agent/Registrar from the Bonds which have not previously been called for redemption, by lot or other customary method of random selection. However, if during any period in which ownership of the Bonds is determined only by a book entry at a securities depository, if fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected in accordance with arrangements between the District and the securities depository. See “BOOK-ENTRY-ONLY SYSTEM.”

Mandatory Redemption: The Bonds maturing on September 15 in the years 2038, 2040 and 2043 (the “Term Bonds”) are subject to mandatory sinking fund redemption in the amounts and at the price of par plus accrued interest to the redemption date on September 15 in the following years:

<u>Term Bonds Due September 15, 2038</u>		<u>Term Bonds Due September 15, 2040</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 15, 2037	\$350,000	September 15, 2039	\$380,000
September 15, 2038 (maturity)	\$365,000	September 15, 2040 (maturity)	\$395,000
<u>Term Bonds Due September 15, 2043</u>			
<u>Redemption Date</u>	<u>Principal Amount</u>		
September 15, 2041	\$415,000		
September 15, 2042	\$430,000		
September 15, 2043 (maturity)	\$450,000		

The Paying Agent/Registrar shall select by lot the Term Bonds within the applicable stated maturity to be redeemed. Any Term Bond not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of Term Bonds of a stated maturity required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of the same maturity which, at least 45 days prior to a mandatory redemption date (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner (hereinafter defined) of each Bond to be redeemed in whole or in part at the address shown on the register. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bond or portions thereof so redeemed shall no longer be regarded as outstanding except for purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

The Board has appointed ZB, National Association, dba Amegy Bank, having a designated payment office in Houston, Texas, as the initial paying agent/registrar for the Bonds (the "Paying Agent/Registrar,"). The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a thirty (30) day month and a three hundred sixty (360) day year. The record date for payment of the interest on any regularly scheduled interest payment date is defined as the last day of the month (whether or not a business day) preceding such payment date.

Registration and Transfer

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

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be either a duly qualified and competent bank or trust company organized under the laws of the State of Texas.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) authorizes bonds of the District (including the Bonds) to be eligible as collateral for public funds.

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

Issuance of Additional Debt

The District expects to issue additional bonds to finance road and water, wastewater and storm drainage facilities as soon as feasible and from time-to-time in order to fully reimburse the Developer for advances made by the Developer to construct roads and water, wastewater, and storm drainage facilities. The District's voters have authorized the issuance of a total of \$87,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, wastewater and storm drainage facilities, and \$63,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing roads and could authorize additional amounts. The District is also authorized to issue unlimited tax refunding bonds in an amount equal to one and one-half of the principal amount of water, wastewater and storm drainage bonds previously issued by the District and in an amount equal to one and one-half of the principal amount of road bonds previously issued by the District. The Board is further empowered to borrow money for any lawful purpose and to issue bond anticipation and tax anticipation notes. After issuance of the Bonds, the District will have \$40,025,000 unlimited tax bonds authorized but unissued for road facilities and \$82,300,000 of unlimited tax bonds authorized but unissued for water, wastewater and storm drainage purposes. See "INVESTMENT CONSIDERATIONS—Future Debt."

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. With respect to the issuance of bonds for road purposes, the District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. The total amount of bonds and other obligations of the District issued for road purposes may not exceed one-fourth of the assessed valuation of the real property in the District.

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) consent from the three cities in whose extraterritorial jurisdiction the District is located; (3) approval of master plan and bonds by the TCEQ; and (4) approval of bonds by the Attorney General of Texas. The Board has not considered seeking authorization to engage in fire-fighting activities at this time, but may do so in the future. If additional debt obligations for fire-fighting purposes are issued in the future by the District, such issuance may adversely affect the investment security of the Bonds.

The District does not have the statutory authority to issue bonds supported by ad valorem taxes for the development of parks and recreational facilities.

Remedies in Event of Default

Texas law and the Bond Order provide that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any registered owner ("Registered Owner(s)") shall be entitled at any time to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board to observe and perform any covenant, obligation or condition prescribed by the Bond Order. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

If the District defaults in the payment of a principal, interest, or the redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, obligations or conditions prescribed in the Bond Order, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. Except for a mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. Further, certain traditional legal remedies also may not be available. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

Defeasance

The Bond Order provides for the defeasance of the Bonds when the payment of the principal of the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, maturing as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar for the Bonds. The Bond Order provides that “Defeasance Securities” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and thereafter the District will have no further responsibility with respect to amounts available to paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Annexation

The District is located partially within the extraterritorial jurisdiction (“ETJ”) of each of the City of Lucas, Texas, the City of Wylie, Texas, and the Town of St. Paul, Texas. The Town of St. Paul, Texas, is a general law city, and therefore, under Texas law, it does not currently have the authority to annex land without the consent of the landowners and it is unlikely to obtain that authority in the foreseeable future. The City of Lucas, Texas, and the City of Wylie, Texas, are home-rule cities, and as such, they have the authority to annex land within their respective ETJs without the consent of the landowners. If one of these cities were to annex land that is within its ETJ and within the District, the District would not be dissolved; the annexed land would be subject to taxation by both the applicable city and the District. Various Huffines Entities (as herein defined) have entered into development agreements (the “Development Agreements”) with the City of Lucas, Texas, (dated September 17, 2009), the City of Wylie, Texas, (dated October 25, 2011), and also the Town of St. Paul, Texas (dated July 9, 2013) providing that the applicable city or the town will not annex the property that is within its ETJ and within the District for at least fifteen years from the date of the respective Development Agreement.

Consolidation

The District has the legal authority, upon a favorable election in each district, to consolidate with one or more other districts and, thereafter, to become one district and be governed as one district. However, debts created prior to consolidation, such as the Bonds, remain debts of the original districts, payable from taxes levied on land in the original districts as if they had not consolidated or from contributions from the consolidated district on terms stated in the consolidation agreement. No representation is made concerning whether the District will consolidate with any other district, and the District currently has no plans to do so.

BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurances that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or

that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street

name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

(Continues on following page)

USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to pay the construction costs associated with the items shown below. Additionally, a portion of the proceeds from the sale of the Bonds will be used to pay certain non-construction costs associated with the issuance of the Bonds and accrued interest due to the Developer .

I. CONSTRUCTION COSTS

Grading, Paving and Related Road Improvements to Serve Inspiration Phases 3, 3B-1, 3B-3, 3C, 5A-1 and Inspiration Boulevard	\$ 4,906,276
Right-of-Way Acquisition	888,695
Engineering	497,042
Total Construction Costs	<u>\$ 6,292,013</u>

II. NON-CONSTRUCTION COSTS

Legal Fees	\$ 182,000
Fiscal Agent Fees	126,500
Developer Interest	252,287
Bond Discount	191,459
Attorney General Review Fee	7,100
Other Bond Issuance Costs	27,100
Surplus Funds	21,541
Total Non-Construction Costs	<u>\$ 807,987</u>

TOTAL BOND ISSUE REQUIREMENT **\$ 7,100,000**

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with

the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On June 26, 2018, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On January 23, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Capitalization of AGM

At June 30, 2018:

- The policyholders' surplus of AGM was approximately \$2,221 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,166 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,898 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

BOND INSURANCE RISKS

The following are factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bond shall have a claim under the applicable bond insurance policy (the “Policy”) for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the Bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy, however, such payments will be made by the insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the bond insurer chooses to pay such amounts at an earlier date.

Under no circumstances does default of payment of principal and interest obligate acceleration of the obligations of the bond insurer without their consent, so long as the bond insurer performs its obligations under the applicable Policy. In the event the bond insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the revenues pledged in the Bond Order.

In the event the bond insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. In the event bond insurance is purchased, the long-term rating on the Bonds will be dependent in part on the financial strength of the bond insurer and its claims paying ability. The bond insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the bond insurer and of the Bonds insured by the bond insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See “SALE AND DISTRIBUTION OF THE BONDS –Municipal Bond Insurance” herein for a description of the ratings.

The obligations of the bond insurer are general obligations of the bond insurer and in an event of default by the bond insurer the remedies may be limited by applicable bankruptcy law. Neither the District nor the Financial Advisor have made an independent investigation into the claims paying ability of any potential bond insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential bond insurer is given.

THE DISTRICT

General

In an order dated March 15, 2011, the Texas Commission on Environmental Quality (the “TCEQ”), pursuant to a Petition of Lavon 593 Land Investment Partners, L.P., a prior developer of land in the District, granted the creation of Collin County Water Control and Improvement District No. 3. The District was granted road powers by Senate Bill 1852 (2013), codified at Chapter 9043, Texas Special District Local Laws Code. The District is a conservation and reclamation district and political subdivision of the State of Texas and operates pursuant to Article 16, Section 59 and Article 3, Section 52 of the Texas Constitution, and Chapters 49 and 51, Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water and, the construction, operation and maintenance of macadamized, graveled or paved roads and improvements, including storm drainage, in aid of those roads. The District may issue bonds and other forms of

indebtedness to purchase or construct such facilities. The District is not empowered to fund parks and recreational facilities with taxes, independently or with one or more conservation and reclamation districts. The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) consent from the three cities in whose extraterritorial jurisdiction the District is located; (3) approval of master plan and bonds by the TCEQ; and (4) approval of bonds by the Attorney General of Texas. The Board has not considered seeking authorization to engage in fire-fighting activities at this time, but may do so in the future. If additional debt obligations for fire-fighting purposes are issued in the future by the District, such issuance may adversely affect the investment security of the Bonds.

The TCEQ exercises continuing supervisory jurisdiction over the District. Construction and operation of the District's utility system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE WATER, WASTEWATER AND DRAINAGE SYSTEM—Regulation."

Description and Location

The District encompasses approximately 593 acres and is located approximately 28 miles north of the central downtown business district of the City of Dallas, Texas. The District is located within the Wylie Independent School District. The District is located along Parker Road near Lake Lavon, adjacent to the Town of St. Paul. See "INVESTMENT CONSIDERATIONS—Estimated Overlapping Debt and Taxes."

(Continues on following page)

Land Use

The following table has been provided by the Developer and represents the current approved land use within the District.

<u>Phase</u>	<u>Acreage</u>	<u>Lots</u>
<i>Inspiration:</i>		
Phase 1A-1 (a)	22.741	27
Phase 1A-2 (b)	16.691	72
Phase 1B (c)	41.62	109
Phase 2A (d)	45.987	100
Phase 2B	25.042	76
Phase 3A (e)	50.075	136
Phase 3B-1 (e)	56.746	199
Phase 3B-2 (f)	14.387	44
Phase 3B-3 (f)	6.019	19
Phase 3C (e)	16.431	54
Phase 4A (f)	25.439	29
Phase 5A-1 (e)	6.707	29
Phase 5A-3 (f)	3.184	5
Subtotal:	331	899
<i>Future Development:</i>		
Concept Plan 12-21-15	262	513
Totals:	593	1,412

- (a) Includes 10.5 acres of open space.
- (b) Includes a 2 acres of open space.
- (c) Includes 6 acres of open space and 1.7 acre municipal water site.
- (d) Includes acreage for 10 acre School site, 9.8 acres of open space and a 0.3 acre municipal water site.
- (e) Includes 13.9 acres of open space.
- (f) Expected completion Fall 2018.

Status of Development

Single-Family Residential: The District is being developed as Inspiration, a predominantly single-family residential development. Development currently consists of 288 acres of Inspiration, Phase 1A-1, Phase 1A-2, Phase 1B, Phase 2A, Phase 2B, Phase 3A, Phase 3B-1, Phase 3B-3, Phase 3C and Phase 5A-1 (821 single-family residential lots and approximately 17 acres of open space). In addition, there is a 1.2 acre resort style swimming complex and clubhouse and a 10 acre school site, upon which George Bush Elementary (Wylie Independent School District) opened in August 2016. Construction is also in progress on 78 lots in Phases 3, 4 and 5. As of August 1, 2018, there were 529 completed single-family homes (497 occupied), 9 model homes, 159 new homes under construction and 124 vacant developed lots available for home construction. According to the Developer, homes being constructed in the District range from approximately \$270,000 to \$600,000 in purchase price.

Recreation: Recreational improvements currently include a community center with a pool and bath house, playground, sports field, event pavilion and plaza, open play fields, water features and walkways, including walking access to Lake Lavon's Trinity Trail.

Future Development

Approximately 262 developable acres of land currently within the District (not including approximately 43 acres under construction for development of 78 single-family residential lots) are not yet fully served with water distribution and supply, wastewater collection and treatment, storm drainage facilities and paving. While the Developer anticipates future development

of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to fully reimburse the Developer for water, wastewater, storm drainage facilities and roads constructed to date, and to accomplish full development of the District. See “INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments—Future Debt.” Jacobs Engineering, the District’s consulting engineer (“the Engineer”) has stated that under current development plans, the remaining authorized but unissued bonds (\$82,300,000 principal amount for water, wastewater and storm drainage purposes and \$47,125,000 principal amount for roads after issuance of the Bonds) should be sufficient to finance the construction of water, wastewater, storm drainage facilities, and roads to complete the District’s water and wastewater and roads systems for full development of the District. See “THE ROAD SYSTEM,” “THE WATER, WASTEWATER AND DRAINAGE SYSTEM” and “INVESTMENT CONSIDERATIONS—Future Debt.”

THE DEVELOPER

Role of a Developer

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

Prospective purchasers of the Bonds should note that the prior real estate experience of the Developer or the Huffines Entities should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. Circumstances surrounding development within the District may differ from circumstances surrounding development of other land in several respects, including the existence of different economic conditions, financial arrangements, homebuilders, geographic location, market conditions, and regulatory climate. No representation is made as to the relative success of any of the projects mentioned above, and no assurance as to the future performance of the Developer to the Huffines Entities should be inferred. Prospective purchasers are urged to inspect the District in order to acquaint themselves with the nature of the business activities of the Developer and the Huffines Entities. See “INVESTMENT CONSIDERATIONS—Dependence on the Developer and Principal Taxpayers—Landowners/Developer/Homebuilders Under No Obligation to the District.”

The Developer

The developer of the Phase 1 and 2 land within the District is HC Inspiration One, LLC (“HC Inspiration”), a Texas limited liability company, which was created to own and develop Phase 1 and 2 of the property within the District. The developer of the Phase 3, 4 and 5 land within the District is St. Paul Inspiration, LLC (“St. Paul Inspiration”), which was created to own and develop Phases 3, 4 and 5 of the property within the District. Two affiliates of HC Inspiration and St. Paul Inspiration, Parker Lakeside, LLC (“Parker Lakeside”), a Texas limited liability company, and Union Valley Ranch, L.P. (“Union Valley”), a Texas limited partnership, also own significant portions of land within the District. Parker Lakeside and Union Valley also own HC Inspiration. The portions of the land within the District owned by Parker Lakeside and Union Valley are currently planned to be developed as future phases of the “Inspiration” community by affiliates of those entities.

HC Inspiration, St. Paul Inspiration, Parker Lakeside and Union Valley are controlled by entities affiliated with Phillip Huffines and Donald Huffines. Development and management tasks of the property owned by HC Inspiration and St. Paul Inspiration are carried out through employees of Huffines Management Partners, LP, a Texas limited partnership, which is part of a group of entities doing business under the name “Huffines Communities” (“Huffines”). Phillip Huffines and Donald Huffines control Huffines.

HC Inspiration, St. Paul Inspiration, Parker Lakeside, Union Valley, Huffines and their affiliates are collectively referred to herein as the “Huffines Entities”.

Huffines was founded in 1985 and has developed and marketed over 18 residential subdivisions in the Dallas-Fort Worth area of Texas, including Waterview, Panther Creek, Country Lakes, Providence and Savannah.

The Developer and the Huffines Entities are not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District nor any legal commitment to the District or owners of the Bonds to

continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time.

The Developer Special Districts Experience

Huffines has significant experience as the developer of master planned communities located within special districts in Texas similar to the District. Entities affiliated with Huffines have made advances to such districts to finance the construction of public improvements and to pay for district operating needs, creating an obligation on the part of the districts to reimburse the developer for those advances through future bond issuances. According to the Developer, Huffines has made a strategic decision to work with each of these districts to establish and maintain a level and competitive combined district tax rate. This strategy has been implemented, in part, through entities affiliated with Huffines funding of a portion of such districts’ operating costs and, when necessary, working with such districts to reduce the operating and maintenance component of such districts’ combined tax rate. In addition to Collin County Water Control and Improvement District No. 3, Huffines’ more significant district experience includes the following:

- Providence Village Water Control and Improvement District of Denton County (formerly Denton County Fresh Water Supply District No. 9). Dissolved by Town of Providence Village in August 2015.
- Denton County Fresh Water Supply District No. 10.
- Viridian Municipal Management District
- Verandah Municipal Utility District of Hunt County (formerly Verandah Fresh Water Supply District of Hunt County).
- Sunrise Municipal Utility District of Hunt County

These districts have issued over \$150,000,000 in tax exempt road and utility bonds during Huffines involvement with them. If levied, the combined tax rate for all of these districts never increased during Huffines involvement due, in part, to advances for operating costs made by the Huffines’ affiliated entities.

Homebuilders

Homebuilding in the District is being conducted by Bloomfield Homes, L.P. d/b/a Bloomfield Homes; Castlerock Communitis L.P., d/b/a Mercury Homes; First Texas Homes, Inc.; Gehan Homes, Ltd; Highland Homes, Ltd.; K. Hovnanian DFW Inspiration, LLC; Meritage Homes of Texas, LLC; Pulte Homes of Texas, L.P.; and Shaddock Homes, Ltd., d/b/a Saxony Homes. The contracts for sale of lots between HC Inspiration and the builders require that earnest money be deposited with a title company and establish certain required purchases on a fixed schedule. HC Inspiration’s sole remedy for homebuilders not purchasing lots in accordance with the contracts is cancellation of the contract and retention of earnest money. All of the builders are current with lot takedown requirements.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held in May in even numbered years only. All of the Board members own land within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

Name	Position	Term Expiration
Tommy Thomas	President	2022
Robert H. Simmons	Vice President	2022
Peter S. Crow	Secretary	2020
Traci Miller	Assistant Secretary	2022
Mike C. Reil	Assistant Secretary	2020

District Consultants

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

Bond & General Counsel: Coats Rose, P.C., Dallas, Texas serves as Bond Counsel and General Counsel to the District. The fees of Bond Counsel are contingent upon the sale and delivery of the Bonds.

Disclosure Counsel: Orrick, Herrington & Sutcliffe LLP, Houston, Texas, has been engaged by the District to serve as “Disclosure Counsel” for the District. Fees for services rendered by Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Financial Advisor: Hilltop Securities Inc., serves as the District’s Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Auditor: The District’s financial statements for the fiscal year ended August 31, 2017 were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See Appendix “A” for a copy of said financial statements.

Tax Assessor/Collector: The Collin Central Appraisal District (the “Appraisal District”) has the responsibility of appraising all property within the District. See “TAXING PROCEDURES.” The District will contract with Mr. Kenneth Maun, Collin County Tax Assessor-Collector, to perform the tax collection function.

Engineer: The District’s consulting engineer is Jacobs Engineering.

Bookkeeper: The District has contracted with L&S District Services, LLC for bookkeeping services.

Utility System Operator: The operator of the District’s internal water and wastewater system is Wylie Northeast Special Utility District.

THE WATER, WASTEWATER AND DRAINAGE SYSTEM

Regulation

Construction and operation of the District’s water, wastewater and storm drainage system (the “Utility System”) as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency.

Wylie Northeast Special Utility District

The Wylie Northeast Special Utility District (“Wylie Northeast SUD”), a political subdivision of the State of Texas created under the authority of Section 59, Article XVI of the State Constitution, is the retail provider of water and sanitary sewer services to the District pursuant to an assigned Non-Standard Service Contract with Wylie Northeast SUD (the “Contract”) from Hanover Property Company. The original agreement was executed on September 3, 2008. Pursuant to the Contract, Wylie Northeast SUD pledges to deliver certain water supply and wastewater services as required to serve the needs of the property owners within the District.

Water Supply

The District obtains water from the Wylie Northeast SUD. Pursuant to the Contract, the District has rights to develop up to approximately 2,104 equivalent single family residential connections (“ESFC”) for water. This is estimated to provide water for 2,058 single family residential homes, one amenity center and approximately 6.1 acres of commercial development.

Wylie Northeast holds the Water Certificate of Convenience and Necessity (“CCN”) No. 10192 originally issued by the TCEQ. North Texas Municipal Water District (“NTMWD”) supplies water to Wylie Northeast SUD via an existing wholesale water supply contract. Jurisdiction over water and sewer CCN was transferred to the Public Utility Commission of Texas effective September 1, 2014.

Wylie Northeast SUD currently charges a Water Connection Fee of \$4,100 per ESFC, which includes a standard residential meter to be installed by Wylie Northeast SUD and reflects all administrative, equipment, water system improvement costs and other lawful costs divided by the number of ESFC within the District at ultimate build-out. The Developer is required to install a meter vault, tap, meter riser with appurtenances and service line for all service connections during the construction of the lots. The Developer shall pay a deposit to Wylie Northeast SUD for each water service ESFC. The District will seek reimbursement of water fees. As of August 1, 2018, the District has approximately 538 active water connections.

Wastewater Treatment

The District obtains wastewater service from Wylie Northeast SUD who is currently negotiating a contract with the NTMWD for regional wastewater service. Wylie Northeast SUD has also been issued a permit to construct a wastewater treatment plant to service the District, subject to certain conditions. Wastewater from the District will be pumped to the NTMWD Muddy Creek Wastewater System.

Wylie Northeast SUD holds the Sewer Certificate of Convenience and Necessity No. 21056 issued by the TCEQ.

Wylie Northeast SUD will adopt and charge a Wastewater Connection fee of \$300 per ESFC, which reflects all administrative, equipment, wastewater system improvement costs and other lawful costs divided by the number of ESFC within the District at ultimate build-out. The Developer shall install all customer equipment, facilities, and appurtenances necessary for Wylie Northeast SUD to provide retail sewer service to each sewer connection in the District. The Developer is required to pay a deposit to Wylie Northeast SUD for each sewer service ESFC. The District will seek reimbursement of the sewer fees. As of August 1, 2018, the District has approximately 538 active sewer connections.

Water Distribution, Wastewater Collection and Storm Drainage Facilities and Roads

Internal water distribution, wastewater collection, storm drainage facilities and paving have been constructed to serve 384 single-family residential lots, a community center with pool and bath house, and a school site.

Flood Protection

According to the District's engineer, none of the developable land is within the 100-year floodplain. The District contains certain areas within the 100-year floodplain and those areas are designated as drainage ways and easements. No lots are proposed within the 100-year floodplain.

THE ROAD SYSTEM

Construction of the District's roads is subject to certain regulation by the Town of St. Paul, Texas, the City of Wylie, Texas, and the City of Lucas, Texas, located in Collin County, Texas.

The roads and ancillary improvements ("Road System") serving Phase 1 and 2 of the District are complete. The Road System consists of collector roads; subdivision roads; a portion of the storm drainage system and other functionally related improvements; and related land acquisition.

Roads within the District are constructed with reinforced concrete pavement with curbs on moisture conditioned and lime stabilized subgrade. Inspiration Boulevard is the principal collector entering the project off of FM 2514 (Parker Road). Inspiration Boulevard is a 2-lane divided roadway from the entrance to the roundabout planned in a future phase. A 60' right-of-way with 37' back to back pavement section is planned through future Phases to provide a connection to the existing interior roadways and transition out of the roundabout. The remaining streets provide local interior service within the project and are typically 30-32 feet wide (between curbs). The Road System also includes streetlights, landscape and hardscape. Franchise utilities (power, phone, gas and cable) are typically located adjacent to the roadway. Public utilities such as water, wastewater and storm drainage are typically located within street rights of way.

(Continues on following page)

DISTRICT OPERATING STATEMENT

Principal and interest on the Bonds are payable solely from the proceeds of an unlimited tax levied against all taxable property within the District's boundaries.

The District intends to convey all of its right, title and interest to and maintenance, operation and repair obligations for the water and sewer systems to Wylie Northeast SUD pursuant to the Contract. The District therefore will not receive revenue from providing water and wastewater service. Although the District is currently dependent on Developer advances for operating funds, the District estimates that it will in future years operate on a positive cash flow basis without water and sewer revenues from customers, even though the amount of its net revenues may be less without net utility system revenues. However, the District cannot predict that the District's net revenues subsequent to such conveyance will be sufficient to fund its future obligations and expenses or that an increase in its maintenance tax may not be required in the future. See Appendix A.

(Continues on following page)

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

Table 1 - Assessed Value, Debt Ratios and Fund Balances

2018 Certified Net Taxable Assessed Valuation	\$ 204,297,769 ⁽¹⁾
Estimated Certified Net Taxable Assessed Valuation as of July 23, 2018	\$ 249,000,000 ⁽²⁾
Gross Direct Debt Outstanding upon Issuance of the Bonds	\$ 27,545,000
Ratio of Gross Direct Debt to 2018 Certified Taxable Assessed Valuation	13.48%
Ratio of Gross Direct Debt to Estimated Net Certified Taxable Assessed Valuation as of July 23, 2018	11.06%
Road Bond Debt Service Fund Balance as of September 11, 2018	\$ 1,631,589 ⁽³⁾
Utility Bond Debt Service Fund Balance as of September 11, 2018	\$ 718,435 ⁽⁴⁾
General Fund Balance as of September 11, 2018	\$ 64,916 ⁽⁵⁾

(1) As certified by the Collin Central Appraisal District (the "Appraisal District") on July 16, 2018. Includes \$4,383,956 under protest as of certification.

(2) As estimated by the Appraisal District.

(3) Any funds in the Road Bond Debt Service Fund are pledged only to pay the debt service on the Bonds, the Outstanding Road Bonds and any additional road bonds. Neither Texas law nor the Bond order require the District to maintain any minimum balance in the road bond debt service fund.

(4) Neither Texas law nor the Bond Order require the District to maintain any minimum balance in the utility bond debt service fund. Any funds in the utility bond debt service fund are pledged only to pay the debt service on the outstanding utility bonds and any additional utility bonds.

(5) No more developer advances are included in the District's operating budget as of Fiscal Year 2019.

Investments of the District

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

Anticipated Issuance of Additional Debt

The District does not intend to issue any additional debt within the next 12 months.

Outstanding Road Bonds

The District has previously issued its Unlimited Tax Road Bonds, Series 2015, Unlimited Tax Road Bonds, Series 2016 and Unlimited Tax Road Bonds, Series 2017 and which are currently outstanding in the aggregate principal amount of \$15,745,000.

Outstanding Utility Bonds

The District has previously issued its Unlimited Tax Utility Bonds, Series 2017, which are currently outstanding in the principal amount of \$4,700,000.

Table 2 - Unlimited Tax Bonds Voted Authorization

Purpose	Date Authorized	Amount		Unissued Balance
		Authorized	Previously Issued	
Utilities	11/8/2011	\$ 87,000,000	\$ 4,700,000	\$ 82,300,000
Utility Refunding Bonds	11/8/2011	130,500,000	-	130,500,000
Roads	11/15/2013	63,000,000	15,875,000	40,025,000
Road Refunding Bonds	11/15/2013	94,500,000	-	94,500,000
Total		\$ 375,000,000	\$ 20,575,000	\$ 347,325,000

Table 3 - Debt Service Requirements

Calendar Year Ending 31-Dec	Outstanding Debt			The Bonds			Total Unlimited Tax Debt Service	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S		
2018	\$ 460,000	\$ 683,348	\$ 1,143,348	\$ -	\$ -	\$ -	\$ 1,143,348	
2019	575,000	687,969	1,262,969	-	269,519	269,519	1,532,488	
2020	590,000	676,469	1,266,469	195,000	269,519	464,519	1,730,988	
2021	600,000	664,306	1,264,306	200,000	257,819	457,819	1,722,125	
2022	615,000	650,381	1,265,381	205,000	245,819	450,819	1,716,200	12.49%
2023	630,000	634,256	1,264,256	210,000	233,519	443,519	1,707,775	
2024	645,000	617,256	1,262,256	215,000	220,919	435,919	1,698,175	
2025	665,000	597,906	1,262,906	225,000	210,169	435,169	1,698,075	
2026	685,000	577,531	1,262,531	230,000	203,419	433,419	1,695,950	
2027	710,000	556,106	1,266,106	240,000	196,519	436,519	1,702,625	28.66%
2028	730,000	533,881	1,263,881	245,000	189,319	434,319	1,698,200	
2029	755,000	510,369	1,265,369	255,000	181,969	436,969	1,702,338	
2030	780,000	485,119	1,265,119	265,000	174,319	439,319	1,704,438	
2031	810,000	457,775	1,267,775	275,000	166,369	441,369	1,709,144	
2032	835,000	428,925	1,263,925	285,000	157,775	442,775	1,706,700	47.67%
2033	870,000	398,831	1,268,831	300,000	148,513	448,513	1,717,344	
2034	900,000	367,013	1,267,013	310,000	138,388	448,388	1,715,400	
2035	935,000	333,444	1,268,444	325,000	127,538	452,538	1,720,981	
2036	970,000	298,044	1,268,044	335,000	116,163	451,163	1,719,206	
2037	1,010,000	261,300	1,271,300	350,000	104,438	454,438	1,725,738	70.56%
2038	1,045,000	222,638	1,267,638	365,000	91,313	456,313	1,723,950	
2039	1,090,000	181,988	1,271,988	380,000	77,625	457,625	1,729,613	
2040	1,135,000	138,706	1,273,706	395,000	63,375	458,375	1,732,081	
2041	1,180,000	93,613	1,273,613	415,000	48,563	463,563	1,737,175	
2042	1,225,000	49,000	1,274,000	430,000	33,000	463,000	1,737,000	98.37%
2043	-	-	-	450,000	16,875	466,875	466,875	100.00%
	\$ 20,445,000	\$ 11,106,173	\$ 31,551,173	\$ 7,100,000	\$ 3,942,756	\$ 11,042,756	\$ 42,593,930	

Maximum Annual Debt Service Requirement (2041)\$1,737,175
Average Annual Debt Service Requirements (2019-2043).....\$1,658,023

Estimated Overlapping Debt and Taxes

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

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

Set forth below is an approximate calculation of overlapping debt and the tax rates imposed for the 2016 tax year by all taxing jurisdictions overlapping the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

Taxing Jurisdiction	2018 Taxable Assessed Value ⁽¹⁾	2017 Total Tax Rate ⁽²⁾	Total Debt as of 9/1/2018	Estimated % Applicable	District's Overlapping Debt 9/1/2018
The District	\$ 204,297,769	\$ 1.0000 ⁽³⁾	\$ 27,545,000 ⁽⁴⁾	100.00%	\$ 27,545,000
Collin County	137,903,786,053	0.1922	301,610,000	0.15%	446,821
Collin County Community College District	140,842,499,817	0.0798	246,415,000	0.15%	357,435
Wylie Independent School District	6,470,937,916	1.6400	271,296,564	3.16%	8,565,263
Total Direct and Overlapping Tax Debt		\$ 2.9121	\$ 846,866,564		\$ 36,914,518

Ratio of Direct and Overlapping Tax Debt to 2018 Certified Net Taxable Assessed Valuation 18.07%

Ratio of Direct and Overlapping Tax Debt to Estimated Net Taxable Assessed Valuation as of July 23, 2018 14.83%

(1) As reported by the Appraisal District.

(2) 2018 tax rates are unavailable at this time. Tax Year 2018 tax rates will be adopted by the end of September 2018.

(3) The District adopted a \$1.0000 tax rate for Tax Year 2018 on September 11, 2018. This tax rate consists of a maintenance and operations tax rate of \$0.2000, a debt service tax rate of \$0.1311 to make debt service payments on the Outstanding Utility Bonds and any additional utility bonds issued in the future and a debt service tax rate of \$0.6689 to make debt service payments on the Bonds, the Outstanding Road Bonds and any additional road bonds issued in the future.

(4) Includes the Bonds.

(Continues on following page)

TAX DATA

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds, the Outstanding Road Bonds and any future road bonds. The District also levies a tax to provide funds to pay the principal and interest on its Outstanding Utility Bonds and any future utility bonds. In 2017 the District levied a tax rate of \$0.5558 per \$100 of taxable assessed valuation to pay debt service on bonds issued for road purposes including the Bonds and the Outstanding Road Bonds and levied a tax rate of \$0.2442 per \$100 of assessed valuation to pay debt service on bonds issued for utility purposes including the Outstanding Utility Bonds. See “TAX DATA—Tax Rate Distribution,” and “Tax Roll Information,” below and “TAXING PROCEDURES.”

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters.

A maintenance tax election was conducted on November 8, 2011. The voters of the District authorized, among other things, the Board to levy a maintenance tax not to exceed \$1.20 per \$100 of taxable assessed valuation for operation and maintenance purposes, including but not limited to planning, constructing, acquiring, maintaining, repairing and operating all necessary land, plants, works, facilities, improvements, appliances and equipment of water, sewer and drainage of the District and for paying costs of proper services, engineering and legal fees and organization and administrative expenses, in accordance with the constitution and laws of the State of Texas, including particularly (but not by way of limitation) Section 49.107 of the Texas Water Code.

A subsequent maintenance tax election was conducted on November 5, 2013. The voters of the District authorized, among other things, the Board to levy a maintenance tax not to exceed \$1.20 per \$100 of taxable assessed valuation for the operation and maintenance of macadamized, graveled, or paved roads, or improvements including storm drainage, in aid of those roads, in accordance with the constitution and laws of the State of Texas, including particularly (but not by way of limitation) Article III, Section 52(b)(3) of the Texas Constitution, and Section 49.107 of the Texas Water Code.

A maintenance tax is in addition to unlimited debt service taxes which the District is authorized to levy for paying principal of and interest on the Bonds. In 2017 the District levied a tax equivalent to \$0.20 per \$100 of taxable assessed valuation for maintenance and operation purposes. The District levied a tax equivalent to \$0.20 per \$100 of taxable assessed valuation for maintenance and operations purposes in 2018 on September 11, 2018.

Contract Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax to make payments under a contract, if the provisions of the contract have been approved by a majority of the qualified voters of the District, and such tax is approved by the TCEQ. To date, the voters in the District have not approved contracts between the District and other parties and the levy of a tax without legal limitation as to rate or amount in support thereof. Such tax would be in addition to taxes which the District is authorized to levy for paying principal of and interest on its road bonds and water and sewer bonds, and taxes for the maintenance and operations of the District.

Tax Exemptions

The District has not adopted any optional exemptions for property located within the District. See “TAXING POWERS”.

Table 4 - Tax Rate Distribution

Tax Year ⁽¹⁾	Calendar Year	Taxable Assessed Valuation	Total Tax Rate	Distribution		Total Tax Levy	Maintenance & Operations Tax Levy	Total Debt Service Tax Levy
				Maintenance Tax Rate	Debt Service Tax Rate			
2015	2016	\$ 33,135,129	\$ 1.0000	\$ 0.2000	\$ 0.8000	\$ 331,351	\$ 66,270	\$ 265,081
2016	2017	67,094,314	1.0000	0.2000	0.8000	670,943	134,189	536,755
2017	2018	119,795,660	1.0000	0.2000	0.8000	1,197,957	239,591	958,365
2018	2019	204,297,769	1.0000	0.2000	0.8000	2,042,978	-	-

(1) The District was created on March 15, 2011. The District levied maintenance taxes and a debt service taxes for the first time in Tax Year 2015.

Table 5 - Historical Tax Collections

Prior to 2015, the District did not levy taxes. The District currently levies a tax of \$0.5558 per \$100 of assessed valuation to pay debt service on road bonds, a tax of \$0.2442 per \$100 of assessed valuation to pay debt service on utility bonds and a tax rate of \$0.2000 per \$100 of assessed valuation for maintenance and operations purposes.

Tax Year	Calendar Year	Taxable Assessed Valuation	Total Tax Rate	Total Debt Service Tax Levy	% Current Collections	% Total Collections
2015	2016	\$ 33,135,129	\$ 1.0000	\$ 331,351	99.70%	100.25%
2016	2017	67,094,314	1.0000	670,943	99.80%	100.22%
2017	2018	119,795,660	1.0000	1,197,957	99.48% ⁽¹⁾	100.37% ⁽¹⁾
2018	2019	204,297,769	1.0000	2,042,978	NA	NA

(1) Collections as of June 29, 2018

Table 6 - Tax Roll Information

The District's appraised value as of January 1 of each year is used by the District in establishing its tax rate. See "TAXING PROCEDURES—Valuation of Property for Taxation."

	2018	2017	2016	2015
Land	\$ 83,200,209	\$ 56,074,174	\$ 48,871,608	\$ 33,216,703
Improvements	140,178,074	81,132,705	19,218,031	926
Personal Property	1,769,461	572,862	162,904	-
Exemptions	(20,849,975)	(17,984,081)	(1,158,229)	(82,500)
Total Assessed Valuation	\$ 204,297,769	\$ 119,795,660	\$ 67,094,314	\$ 33,135,129

Table 7 - Principal Taxpayers

The following table represents the principal taxpayers, the taxable assessed value of such property, and such property’s taxable appraised value as a percentage of the 2018 Certified Net Taxable Assessed Valuation of \$204,297,769.

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>2018 Taxable Assessed Valuation ⁽¹⁾</u>	<u>% of Total Taxable Assessed Valuation</u>
First Texas Homes Inc	Land	\$ 5,679,526	2.78%
Lavon Development	Land	5,380,316	2.63%
Bloomfield Homes LP	Builder	4,131,275	2.02%
St. Paul Inspiration LLC	Builder	3,730,160	1.83%
Castlerock Communities LP	Builder	3,710,336	1.82%
Shaddock Homes LTD	Builder	3,629,149	1.78%
Pulte Homes of Texas LP	Builder	3,493,638	1.71%
Gehan Homes LTD	Builder	3,177,324	1.56%
Union Valley Ranch LP	Builder	2,651,190	1.30%
Highland Homes-Dallas LLC	Builder	1,715,876	0.84%
	Total	<u>\$ 37,298,790</u>	<u>18.26%</u>

(1) As reported by the Appraisal District.

Table 8 - Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet estimated average annual and maximum debt service requirements if no growth in the District’s tax base occurred beyond the 2018 Certified Net Taxable Assessed Valuation of \$204,297,769 and the Estimated Net Taxable Assessed Valuation as of July 23, 2018. The calculations contained in the following table merely represent the tax rates required to pay debt service on the Bonds, the Outstanding Road Bonds and the Outstanding Utility Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety percent (90%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”

Tax Adequacy at 2018 Certified Net Taxable Assessed Valuation

Average Annual Debt Service Requirement (2019-2043)	\$ 1,658,023
\$0.8543 Tax Rate at 95% Collections to pay Average Annual Debt Service produces	\$ 1,658,050
Maximum Annual Debt Service Requirement (2041)	\$ 1,737,175
\$0.8951 Tax Rate at 95% Collections to pay Average Annual Debt Service produces	\$ 1,737,236

Tax Adequacy at Estimated Net Taxable Assessed Valuation as of July 23, 2018

Average Annual Debt Service Requirement (2019-2043)	\$ 1,658,023
\$0.7010 Tax Rate at 95% Collections to pay Average Annual Debt Service produces	\$ 1,658,216
Maximum Annual Debt Service Requirement (2041)	\$ 1,737,175
\$0.7344 Tax Rate at 95% Collections to pay Average Annual Debt Service produces	\$ 1,737,223

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds and any additional road bonds payable from taxes which the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. The Board is also authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Outstanding Utility Bonds and any additional utility bonds payable from taxes which the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. See “INVESTMENT CONSIDERATIONS—Future Debt.” The District agrees in the Bond Order to levy such a tax from year to year as described more fully herein under “THE BONDS—Sources of and Security for Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA.”

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

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

be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2013 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken no official action to allow taxation of all such goods-in-transit personal property.

General Residential Homestead Exemption

The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the market value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never granted a general residential homestead exemption.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements on the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

District and Taxpayer Remedies

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

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residential homestead increases by more than eight percent. If a rollback election

is called and passes, the rollback tax rate is the sum of the District's current year's debt service and contract tax rates (if levied) plus 1.08 times the District's previous year's operation and maintenance tax rate. Thus, the District's debt service and contract tax rates cannot be changed by a rollback election.

Agricultural, Open Space, or Timberland Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who could continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including such taxes for a period of three (3) years for agricultural use and five (5) years for timberland or open space land prior to the loss of the designation. As of January 1, 2017, no land within the District was designated for agricultural use, open space, or timberland.

Tax Abatement

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board, after the legally required notice has been given to owners of property within the District, based upon: (a) the valuation of property within the District as of the preceding January 1, and (b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. However, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in equal installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both except as described above under “Levy and Collection of Taxes.” In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District’s ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act 12 U.S.C. 1825, as amended. Generally, the District’s tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See “INVESTMENT CONSIDERATIONS—Tax Collections Limitations and Foreclosure Remedies.”

INVESTMENT CONSIDERATIONS

General

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of undeveloped land and of developed lots which are currently being marketed by the Developer for sale to homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 28 miles from the central downtown business district of the City of Dallas, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Dallas metropolitan and regional economies and the national financial and credit markets. A downturn in the economic conditions of the City of Dallas and the nation could adversely affect development and home-building plans in the District and restrain the growth of or reduce the value of the District’s property tax base.

Competition

The demand for and construction of single-family homes in the District, which is 28 miles from downtown Dallas, could be affected by competition from other residential developments including other residential developments located in the vicinity of the District. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Dallas. Such homes could represent additional competition for new homes proposed to be sold within the District.

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

Development and Home Construction in the District

As of August 31, 2018, approximately 111 developed lots within the District remained vacant, 145 homes are under construction and 524 completed homes are occupied. Failure of builders to construct taxable improvements on developed lots could result in increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and the contractual obligations of the District. Future increases in value will result primarily from the construction of homes by builders. See “THE DEVELOPER—Homebuilders.”

Undeveloped Acreage/Vacant Lots

There are approximately 262 developable acres of land within the District (not including approximately 43 acres under construction for the development of 78 single-family residential lots) that have not been fully provided with water, wastewater and storm drainage facilities and roads. The District makes no representation as to when or if development of this acreage will occur. There are also 111 vacant developed lots. See “THE DISTRICT—Land Use.”

Overlapping Debt and Taxes

The District is located partially within the ETJ of each of the City of Lucas, the City of Wylie, and the Town of St. Paul. The Town of St. Paul is a general law city, and therefore, under Texas law, it does not currently have the authority to annex land without the consent of the landowners and it is unlikely to obtain that authority in the foreseeable future. The City of Lucas and the City of Wylie are home-rule cities, and as such, they have the authority to annex land within their respective ETJs without the consent of the landowners. If one of these cities were to annex land that is within its ETJ and within the District, the District would not be dissolved; the annexed land would be subject to taxation by both the applicable city and the District. The Huffines Entities have entered into the Development Agreements with the City of Lucas (dated September 17, 2009), the City of Wylie (dated October 25, 2011), and also the Town of St. Paul (dated July 9, 2013) providing that the applicable city or the town will not annex the property that is within its ETJ and within the District for at least fifteen years from the date of the respective Development Agreement.

The District cannot predict and has no control over future debt and tax plans of the overlapping jurisdictions – See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED) – Estimated Overlapping Debt and Taxes.” There can be no assurances that the composite of the tax rates imposed by all jurisdictions on property in the District will be competitive with the composite of the tax rates imposed on competing projects in the Collin County area. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected.

Landowners/Developer/Homebuilders Under No Obligation to the District

There are no commitments from or obligations of the Developer, the Huffines Entities or homebuilders within the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner’s right to sell its land. Failure to construct taxable improvements on developed lots and tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developer and the Huffines Entities and the other landowners for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of the Developer or the Huffines Entities will be or what effect, if any, such condition may have on their ability to pay taxes. See “THE DEVELOPER.”

Tax Collections Limitations and Foreclosure Remedies

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “FINANCIAL

INFORMATION CONCERNING THE DISTRICT (UNAUDITED) — Estimated Overlapping Debt and Taxes”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers’ right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners’ Remedies and Bankruptcy Limitations

The Bond Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Registered Owners upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. Statutory language authorizing local governments such as the District to sue or be sued does not waive the local government’s sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy code (“Chapter 9”). Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Registered Owners of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors. The District may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes, bond anticipation notes, unlimited tax utility bonds and unlimited tax road bonds, and to borrow for any valid corporate purpose. Pursuant to elections held on November 8, 2011 and November 5, 2013, the resident electors authorized a total of \$87,000,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities, and \$63,000,000 principal amount of unlimited tax bonds for roads. The District is also authorized to issue unlimited tax refunding bonds in an amount equal to one and one-half of the principal amount of bonds issued for water, wastewater and storm drainage facilities, and roads, respectively; to refund outstanding bonds issued for water, sewer and drainage facilities and roads. After issuance the Bonds, the District will have \$40,025,000 unlimited tax bonds for road facilities authorized but unissued and \$82,300,000 of unlimited tax bonds for water, wastewater and storm drainage facilities authorized but unissued. The District believes that such remaining authorization of unlimited tax bonds for water, wastewater, storm drainage, and roads purposes will be sufficient to finance improvements for the remainder of the District. See “THE BONDS—Issuance of Additional Debt.” In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. See “THE BONDS—Authority for Issuance.” The issuance of additional obligations may increase the District’s tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

Pursuant to developer financing agreements, prior to the issuance of the Bonds, the District owes the Developer approximately \$15,200,000 plus interest for engineering and construction of water, wastewater and storm drainage facilities and

roads and related improvements. After the issuance of the Bonds the remaining balance owed to the Developer by the District will be \$9,000,000. The District expects to issue additional bonds to reimburse the Developer and to finance water, wastewater, storm drainage facilities, and roads to serve the remaining 305 undeveloped acres within the District (including approximately 43 acres currently under construction) for development of 591 single-family residential lots) when feasible from time-to-time in order to fully develop the District.

The District may also issue additional bonds to finance a water irrigation system, as well as to pay for certain drainage and erosion control projects. The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. Except with respect to the issuance of bonds for road purposes, the District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. The total amount of bonds and other obligations of the District issued for road purposes may not exceed one-fourth of the assessed valuation of the real property in the District. The issuance of additional bonds for the purpose of financing water, wastewater and drainage facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. See "THE BONDS—Authority for Issuance—Issuance of Additional Debt."

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) consent from the three cities in whose extraterritorial jurisdiction the District is located; (3) approval of master plan and bonds by the TCEQ; and (4) approval of bonds by the Attorney General of Texas. The Board has not considered seeking authorization to engage in fire-fighting activities at this time, but may do so in the future. If additional debt obligations for fire-fighting purposes are issued in the future by the District, such issuance may adversely affect the investment security of the Bonds.

The District does not have the statutory authority to issue bonds supported by ad valorem taxes for the development of parks and recreational facilities.

Future and Proposed Legislation

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

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See "LEGAL MATTERS" and "TAX MATTERS."

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without legal limitation as to rate or amount, upon all taxable property within the District. The District will also furnish the approving legal opinion of Coats Rose, P.C., Dallas, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent

that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Certain legal matters will be passed upon for the District by its Disclosure Counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas.

The District will also furnish the legal opinion of Bond Counsel to the District to the effect that interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law, subject to the matters discussed below under “TAX MATTERS,” including the alternative minimum tax on corporations.

The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and therefore such fees are contingent upon the sale and delivery of the Bonds.

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

Legal Review

In its capacity as Bond Counsel, Coats Rose P.C., has reviewed the information appearing in this Official Statement under the captioned sections “THE BONDS,” “MANAGEMENT OF THE DISTRICT—District Consultants—Bond Counsel,” “TAXING PROCEDURES,” “LEGAL MATTERS (insofar as it relates to the opinion of Bond Counsel),” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION (except for the subheading “Compliance with Prior Undertakings)”” solely to determine whether such information fairly summarizes the law referred to therein. In its capacity as General Counsel to the District, Coats Rose has reviewed the information appearing in this Official Statement under the captioned sections “THE BONDS—Annexation,” “—Consolidation,” “THE DISTRICT—General,” “THE WATER, WASTEWATER AND DRAINAGE SYSTEM” and “THE ROAD SYSTEM” solely to determine whether such sections fairly summarize the matters contained therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information at representations contained in the District’s federal tax certificate, and (c) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. The failure by the District to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

Under Existing Law, such an owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period for which such Original Issue Discount Bond continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax,

taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

NO-LITIGATION CERTIFICATE

With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Underwriter a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the knowledge of the District’s certifying officers,

threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

NO MATERIAL ADVERSE CHANGE

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

Appraisal District: The information contained in this Official Statement relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by the Collin Central Appraisal District and is included herein in reliance upon the authority of such acting as an expert in assessing property values and collecting taxes.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the District's road system and water and wastewater system and, in particular that information included in the sections entitled "THE DISTRICT," "THE ROAD SYSTEM," and "THE WATER, WASTEWATER AND DRAINAGE SYSTEM" has been provided by Jacobs Engineering, Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "DISTRICT OPERATING STATEMENT" and the Annual Financial Report in "APPENDIX A" has been provided by L&S District Services, LLC and is included herein in reliance upon the authority of such company as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following covenants for the benefit of the holders of the Bonds. The District is required to observe these covenants for so long as it remains obligated to pay the Bonds. Under the covenants, the District will be obligated to provide certain updated financial information and operating data annually, as well as timely notice of specified events, to the Municipal Securities Rulemaking Board or any successor to its function as a repository (the "MSRB"), through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to the EMMA annually.

The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings SELECTED FINANCIAL INFORMATION, TAX DATA and FINANCIAL INFORMATION CONCERNING THE DISTRICT. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by United States Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with such accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's fiscal year end is August 31. Accordingly, it must provide annual updated information by the last calendar day of February in each year. If the District changes its fiscal year, it will notify the MSRB of the change.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6)

adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under Annual Reports.

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance With Prior Undertakings

The District entered its first continuing disclosure agreement pursuant to the Rule in 2015. Since that time, the District has complied in all material aspects with its previous continuing disclosure agreement in accordance with the Rule.

MISCELLANEOUS

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

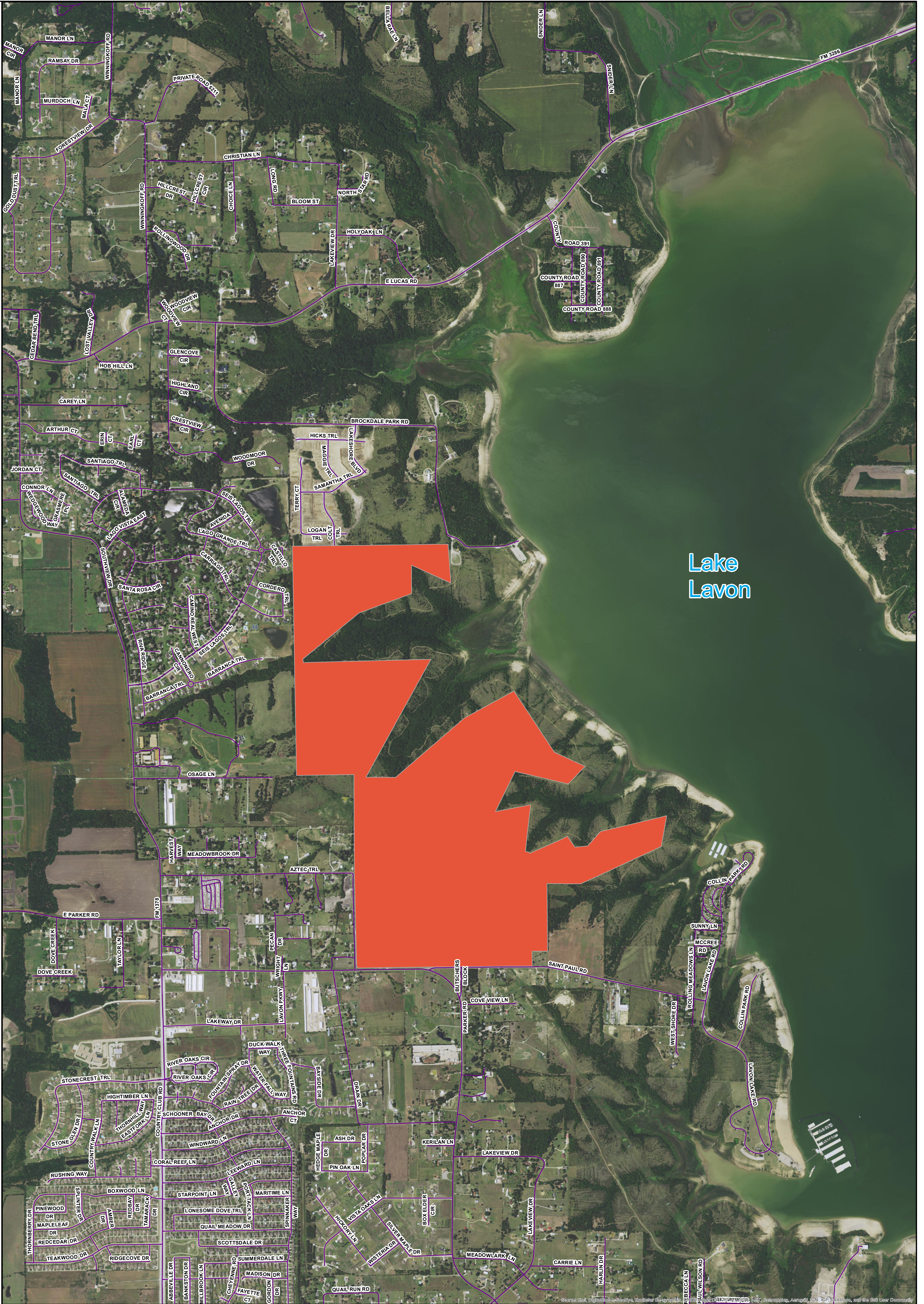
This Official Statement was approved by the Board of Directors of Collin County Water Control and Improvement District No. 3, as of the date shown on the first page hereof.

/s/ Tommy Thomas
President, Board of Directors

ATTEST:

/s/ Peter S. Crow
Secretary, Board of Directors

DISTRICT LOCATION MAP



Map Features

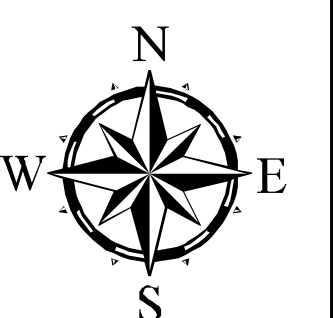
-  Roads
-  Area Outline

Location Map Collin County WCID No.3

Coordinate System:
NAD_1983_StatePlane_Texas_North_Central_
FIPS_4202_Feet

Data Source: Jacobs NAI GIS

Map Created: 9/1/2015
By: Andres McDonnell



1 inch = 800 feet



PHOTOGRAPHS OF THE DISTRICT

(This Page Intentionally Blank)





APPENDIX A

Financial Statement of the District for the year ended August 31, 2017

The information contained in this appendix includes the Annual Financial Report of Collin County Water Control and Improvement District No. 3 for the fiscal year ended August 31, 2017.

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Collin County Water Control and
Improvement District No. 3
Collin County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Collin County Water Control and Improvement District No. 3 (the "District"), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of August 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

December 12, 2017

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017**

Management's discussion and analysis of Collin County Water Control and Improvement District No. 3's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2017. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$2,902,369 as of August 31, 2017. A portion of the District's net position reflects its net investment in capital assets (roads, land and land improvements, and intangible assets less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of the Statement of Net Position as of August 31, 2017, and August 31, 2016.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 1,352,910	\$ 715,128	\$ 637,782
Capital and Intangible Assets (Net of Accumulated Depreciation)	<u>16,709,235</u>	<u>15,678,691</u>	<u>1,030,544</u>
Total Assets	<u>\$ 18,062,145</u>	<u>\$ 16,393,819</u>	<u>\$ 1,668,326</u>
Due to Developers	\$ 9,644,753	\$ 13,068,594	\$ 3,423,841
Bonds Payable	11,118,563	5,062,372	(6,056,191)
Other Liabilities	<u>201,198</u>	<u>139,803</u>	<u>(61,395)</u>
Total Liabilities	<u>\$ 20,964,514</u>	<u>\$ 18,270,769</u>	<u>\$ (2,693,745)</u>
Net Position:			
Net Investment in Capital Assets	\$ (2,857,993)	\$ (1,598,213)	\$ (1,259,780)
Restricted	1,131,047	519,397	611,650
Unrestricted	<u>(1,175,423)</u>	<u>(798,134)</u>	<u>(377,289)</u>
Total Net Position	<u>\$ (2,902,369)</u>	<u>\$ (1,876,950)</u>	<u>\$ (1,025,419)</u>

*

The following table provides a summary of the District's operations for the years ended August 31, 2017, and August 31, 2016.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 670,830	\$ 330,365	\$ 340,465
Other Revenues	<u>41,470</u>	<u>7,597</u>	<u>33,873</u>
Total Revenues	\$ 712,300	\$ 337,962	\$ 374,338
Expenses for Services	<u>1,737,719</u>	<u>2,020,300</u>	<u>282,581</u>
Change in Net Position	\$ (1,025,419)	\$ (1,682,338)	\$ 656,919
Net Position, Beginning of Year	<u>(1,876,950)</u>	<u>(194,612)</u>	<u>(1,682,338)</u>
Net Position, End of Year	<u>\$ (2,902,369)</u>	<u>\$ (1,876,950)</u>	<u>\$ (1,025,419)</u>

*

* As adjusted

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of August 31, 2017, were \$1,327,140, an increase of \$664,308 from the prior year.

The General Fund fund balance decreased by \$23,033, primarily due to operating and administrative costs which exceeded developer advances and tax revenues.

The Debt Service Fund fund balance increased by \$699,815, primarily due to proceeds from the Series 2016 Unlimited Tax Road Bonds.

The Capital Projects Fund fund balance decreased by \$12,474. The District sold its Series 2016 Unlimited Tax Road Bonds and used the proceeds to reimburse a developer.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$20,644 more than budgeted revenues. Actual expenditures were \$200,631 more than budgeted primarily due to higher than anticipated purchased services. Developer advances were used to pay for the higher than anticipated purchased services.

CAPITAL AND INTANGIBLE ASSETS

Capital assets as of August 31, 2017, total \$7,874,019 (net of accumulated depreciation) and include land, roads and landscaping.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land	\$ 1,395,296	\$ 1,395,296	\$
Capital Assets, Net of Accumulated Depreciation:			
Roads	5,129,916	5,225,134	(95,218)
Landscape and Hardscape	1,348,807	1,509,493	(160,686)
Total Net Capital Assets	\$ 7,874,019	\$ 8,129,923	\$ (255,904)

Certain infrastructure constructed by developers for the purpose of providing water service and wastewater service to District residents is conveyed to other entities for ownership and maintenance as part of the provision of utility services to District customers. These costs are recorded as intangible assets and amortized over a period of 50 years. Intangible assets have an August 31, 2017, unamortized balance of \$8,835,216.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017**

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$11,180,000. The changes in the debt position of the District during the fiscal year ended August 31, 2017, are summarized as follows:

Bond Debt Payable, September 1, 2016	\$ 5,110,000
Add: Bond Sale - Series 2016 Road Bonds	<u>6,070,000</u>
Bond Debt Payable, August 31, 2017	<u>\$ 11,180,000</u>

The Series 2015 and 2016 bonds are not rated.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Collin County Water Control and Improvement District No. 3, c/o Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, TX 75254.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
AUGUST 31, 2017**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 25,092	\$ 19,562
Investments		970,000
Cash with Fiscal Agent		318,144
Receivables:		
Property Taxes	244	974
Accrued Interest		188
Other Governmental Entity	11,727	
Due from Other Funds	666	
Land		
Intangible Assets (Net of Accumulated Amortization)		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 37,729	\$ 1,308,868
LIABILITIES		
Accounts Payable	\$ 23,543	\$ 1,009
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		166
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 23,543	\$ 1,175
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 244	\$ 974
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		1,306,719
Unassigned	13,942	
TOTAL FUND BALANCES	\$ 13,942	\$ 1,306,719
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 37,729	\$ 1,308,868
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 6,979	\$ 51,633	\$	\$ 51,633
	970,000		970,000
	318,144		318,144
	1,218		1,218
	188		188
	11,727		11,727
	666	(666)	
		1,395,296	1,395,296
		8,835,216	8,835,216
		6,478,723	6,478,723
<u>\$ 6,979</u>	<u>\$ 1,353,576</u>	<u>\$ 16,708,569</u>	<u>\$ 18,062,145</u>
\$	\$ 24,552	\$	\$ 24,552
		176,646	176,646
		9,644,753	9,644,753
500	666	(666)	
		130,000	130,000
		10,988,563	10,988,563
<u>\$ 500</u>	<u>\$ 25,218</u>	<u>\$ 20,939,296</u>	<u>\$ 20,964,514</u>
<u>\$ -0-</u>	<u>\$ 1,218</u>	<u>\$ (1,218)</u>	<u>\$ -0-</u>
\$ 6,479	\$ 6,479	\$ (6,479)	\$
	1,306,719	(1,306,719)	
	13,942	(13,942)	
<u>\$ 6,479</u>	<u>\$ 1,327,140</u>	<u>\$ (1,327,140)</u>	<u>\$ - 0 -</u>
<u>\$ 6,979</u>	<u>\$ 1,353,576</u>		
		\$ (2,857,993)	\$ (2,857,993)
		1,131,047	1,131,047
		(1,175,423)	(1,175,423)
		<u>\$ (2,902,369)</u>	<u>\$ (2,902,369)</u>

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2017**

Total Fund Balances - Governmental Funds	\$	1,327,140
--	----	-----------

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

Capital and intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		16,709,235
---	--	------------

Deferred inflows of resources related to property tax revenues for the 2016 tax levy became part of recognized revenue in the governmental activities of the District.		1,218
--	--	-------

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

Due to Developer	\$ (9,644,753)	
Accrued Interest Payable	(176,646)	
Bonds Payable	<u>(11,118,563)</u>	<u>(20,939,962)</u>

Total Net Position - Governmental Activities	\$	<u>(2,902,369)</u>
--	----	--------------------

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

THIS PAGE INTENTIONALLY LEFT BLANK

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED AUGUST 31, 2017**

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 133,922	\$ 535,690
Penalty and Interest		2,780
Garbage Revenues	35,433	
Miscellaneous Revenues		3,257
TOTAL REVENUES	<u>\$ 169,355</u>	<u>\$ 541,727</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 184,054	\$
Contracted Services	39,208	5,690
Purchased Services	184,623	
Utilities	38,450	
Repairs and Maintenance	32,400	
Amortization and Depreciation		
Other	16,561	169
Conveyed to Other Governmental Entity		
Capital Outlay		
Debt Service:		
Bond Interest		267,106
Bond Issuance Costs	51,592	
TOTAL EXPENDITURES/EXPENSES	<u>\$ 546,888</u>	<u>\$ 272,965</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (377,533)</u>	<u>\$ 268,762</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from Issuance of Long-Term Debt	\$	\$ 431,053
Bond Discount		
Developer Advances	354,500	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 354,500</u>	<u>\$ 431,053</u>
NET CHANGE IN FUND BALANCES	<u>\$ (23,033)</u>	<u>\$ 699,815</u>
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - SEPTEMBER 1, 2016, AS ADJUSTED	<u>36,975</u>	<u>606,904</u>
FUND BALANCES/NET POSITION - AUGUST 31, 2017	<u>\$ 13,942</u>	<u>\$ 1,306,719</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 669,612	\$ 1,218	\$ 670,830
	2,780		2,780
	35,433		35,433
	3,257		3,257
<u>\$ - 0 -</u>	<u>\$ 711,082</u>	<u>\$ 1,218</u>	<u>\$ 712,300</u>
\$	\$ 184,054	\$	\$ 184,054
	44,898		44,898
	184,623		184,623
	38,450		38,450
	32,400		32,400
		467,973	467,973
	16,730		16,730
		(104,115)	(104,115)
5,172,744	5,172,744	(5,172,744)	
	267,106	91,694	358,800
462,314	513,906		513,906
<u>\$ 5,635,058</u>	<u>\$ 6,454,911</u>	<u>\$ (4,717,192)</u>	<u>\$ 1,737,719</u>
<u>\$ (5,635,058)</u>	<u>\$ (5,743,829)</u>	<u>\$ 4,718,410</u>	<u>\$ (1,025,419)</u>
\$ 5,638,947	\$ 6,070,000	\$ (6,070,000)	\$
(16,363)	(16,363)	16,363	
	354,500	(354,500)	
<u>\$ 5,622,584</u>	<u>\$ 6,408,137</u>	<u>\$ (6,408,137)</u>	<u>\$ - 0 -</u>
\$ (12,474)	\$ 664,308	\$ (664,308)	\$
		(1,025,419)	(1,025,419)
<u>18,953</u>	<u>662,832</u>	<u>(2,539,782)</u>	<u>(1,876,950)</u>
<u>\$ 6,479</u>	<u>\$ 1,327,140</u>	<u>\$ (4,229,509)</u>	<u>\$ (2,902,369)</u>

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017**

Net Change in Fund Balances - Governmental Funds	\$	664,308
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		1,218
Governmental funds do not account for amortization and depreciation. However, in the Statement of Net Position, capital and intangible assets are depreciated and amortized and an expense is recorded in the Statement of Activities.		(467,973)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		5,172,744
Governmental funds report bond discounts as other financing uses in the year paid. However, in the Statement of Net Position, the bond discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		16,363
In the Statement of Activities, the cost of completed facilities that are conveyed to the Wylie Northeast Special Utility District are recorded as an expense.		104,115
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(91,694)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		(6,070,000)
Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability.		<u>(354,500)</u>
Change in Net Position - Governmental Activities	\$	<u>(1,025,419)</u>

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 1. CREATION OF DISTRICT

In an order dated March 15, 2011, the Texas Commission on Environmental Quality (the “Commission”), pursuant to a Petition of Lavon 593 Land Investment Partners, L.P., a prior developer of land in the District, granted the creation of Collin County Water Control and Improvement District No. 3 (the “District”). The District was granted road powers by Senate Bill 1852 (2013), codified at Chapter 9043, Texas Special District Local Laws Code. The District is a conservation and reclamation district and political subdivision of the State of Texas and operates pursuant to Article 16, Section 59 and Article 3, Section 52 of the Texas Constitution, and Chapters 49 and 51, Texas Water Code, as amended. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water and, the construction, operation and maintenance of macadamized, graveled or paved roads and improvements, including storm drainage, in aid of those roads. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is not empowered to fund parks and recreational facilities with taxes, independently or with one or more conservation and reclamation districts. The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. The Board has not considered seeking authorization to engage in fire-fighting activities at this time, but may do so in the future. The District is subject to the continuing supervision of the Commission.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

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

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

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

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

Government-Wide Financial Statements

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

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of August 31, 2017, the Debt Service Fund owed the General Fund \$166 for maintenance tax collections. The Capital Projects Fund owed the General Fund \$500 for bond issuance costs associated with the Series 2016 Road Bonds.

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Roads	45
Landscaping	10

Certain infrastructure constructed by developers for the purposes of providing water service and wastewater service to District residents is conveyed to other entities for ownership and maintenance. These costs are recorded as an intangible asset and amortized over a period of 50 years.

Budgeting

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

Pensions

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

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

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

The following is a summary of transactions regarding bonds payable for the year ended August 31, 2017:

	<u>September 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>August 31, 2017</u>
Bonds Payable	\$ 5,110,000	\$ 6,070,000	\$	\$ 11,180,000
Unamortized Discounts	(47,628)	(16,363)	(2,554)	(61,437)
Bonds Payable, Net	<u>\$ 5,062,372</u>	<u>\$ 6,053,637</u>	<u>\$ (2,554)</u>	<u>\$ 11,118,563</u>
		Amount Due Within One Year		\$ 130,000
		Amount Due After One Year		10,988,563
		Bonds Payable, Net		<u>\$ 11,118,563</u>

As of August 31, 2017, the District had authorized but unissued bonds in the amount of \$51,820,000 for roads, \$87,000,000 for water, sewer, and drainage facilities, \$94,500,000 for refunding road bonds, and \$130,500,000 for refunding water, sewer, and drainage facilities 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.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 3. LONG-TERM DEBT (Continued)

	<u>Series 2015</u>	<u>Series 2016</u>
Amount Outstanding – August 31, 2017	\$5,110,000	\$6,070,000
Interest Rates	2.00% - 4.25%	2.00% - 3.625%
Maturity Dates – Serially Beginning/Ending	September 15, 2017/2040	September 15, 2018/2041
Interest Payment Dates	September 15/ March 15	September 15/ March 15
Callable Dates	September 15, 2025*	September 15, 2026*

* Or any date thereafter, in whole or from time to time in part, in integral multiples of \$5,000, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. Series 2015 term bonds maturing on September 15, 2031, September 15, 2033, September 15, 2036, and September 15, 2040, are subject to mandatory redemption beginning September 15, 2030, September 15, 2032, September 15, 2034, and September 15, 2037, respectively. Series 2016 term bonds maturing on September 15, 2041 are subject to mandatory redemption beginning on September 15, 2038.

As of August 31, 2017, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 130,000	\$ 374,987	\$ 504,987
2019	310,000	370,587	680,587
2020	320,000	364,287	684,287
2021	325,000	357,656	682,656
2022	335,000	350,512	685,512
2023-2027	1,820,000	1,616,687	3,436,687
2028-2032	2,150,000	1,300,546	3,450,546
2033-2037	2,605,000	870,956	3,475,956
2038-2042	3,185,000	314,774	3,499,774
	<u>\$ 11,180,000</u>	<u>\$ 5,920,992</u>	<u>\$ 17,100,992</u>

During the year ended August 31, 2017, the District levied an ad valorem debt service tax rate of \$0.80 per \$100 of assessed valuation, which resulted in a tax levy of \$536,664 on the adjusted taxable valuation of \$67,082,952 for the 2016 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 3. LONG-TERM DEBT (Continued)

The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds be rebated to the federal government, within the meaning of Section 148(f) of the Internal Revenue Code.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,021,633 and the bank balance was \$1,025,457. The District was not exposed to custodial credit risk at year-end.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at August 31, 2017, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 25,092	\$	\$ 25,092
DEBT SERVICE FUND	19,562	970,000	989,562
CAPITAL PROJECTS FUND	<u>6,979</u>	<u></u>	<u>6,979</u>
TOTAL DEPOSITS	<u>\$ 51,633</u>	<u>\$ 970,000</u>	<u>\$ 1,021,633</u>

Investments

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

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District records its investment in certificates of deposit at amortized cost. As of August 31, 2017, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities - Less Than 1 Year
<u>DEBT SERVICE FUND</u>		
Certificates of Deposit	<u>\$ 970,000</u>	<u>\$ 970,000</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages interest rate risk by typically investing in certificates of deposit with maturities of less than one year.

Restrictions

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

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2017:

	September 1, 2016	Increases	Decreases	August 31, 2017
Capital Assets Not Being Depreciated				
Land	\$ 1,395,296	\$ - 0 -	\$ - 0 -	\$ 1,395,296
Capital Assets Subject to Depreciation				
Roads	\$ 5,328,083	\$ 23,901	\$	\$ 5,351,984
Landscape and Hardscape	1,606,856			1,606,856
Total Capital Assets Subject to Depreciation	\$ 6,934,939	\$ 23,901	\$ - 0 -	\$ 6,958,840
Accumulated Depreciation				
Roads	\$ 102,949	\$ 119,119	\$	\$ 222,068
Landscape and Hardscape	97,363	160,686		258,049
Total Accumulated Depreciation	\$ 200,312	\$ 279,805	\$ - 0 -	\$ 480,117
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 6,734,627	\$ (255,904)	\$ - 0 -	\$ 6,478,723
Total Capital Assets, Net of Accumulated Depreciation	\$ 8,129,923	\$ (255,904)	\$ - 0 -	\$ 7,874,019

Certain infrastructure constructed by developers for the purposes of providing water service and wastewater service to District residents is conveyed to other entities for ownership and maintenance. These costs are recorded as an intangible asset and amortized over a period of 50 years.

	September 1, 2016	Increases	Decreases	August 31, 2017
Intangible Assets Subject to Amortization				
Water and Sewer Infrastructure	\$ 7,679,053	\$ 1,474,616	\$ - 0 -	\$ 9,153,669
Less Accumulated Amortization				
Water and Sewer Infrastructure	\$ 130,285	\$ 188,168	\$ - 0 -	\$ 318,453
Total Amortizable Intangible Assets, Net of Accumulated Amortization	\$ 7,548,768	\$ (188,168)	\$ - 0 -	\$ 8,835,216

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 7. MAINTENANCE TAX

On November 8, 2011, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.20 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's systems and other operating and maintenance expenses. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.20 per \$100 of assessed valuation, which resulted in a tax levy of \$134,166 on the adjusted taxable valuation of \$67,082,952 for the 2016 tax year.

A subsequent maintenance tax election was conducted on November 5, 2013. The voters of the District authorized, among other things, the Board to levy a maintenance tax not to exceed \$1.20 per \$100 of taxable assessed valuation for the operation and maintenance of macadamized, graveled, or paved roads, or improvements including storm drainage, in aid of those roads, in accordance with the constitution and laws of the State of Texas, including particularly (but not by way of limitation) Article III, Section 52(b)(3) of the Texas Constitution, and Section 49.107 of the Texas Water Code.

NOTE 8. UNREIMBURSED DEVELOPER COSTS

The District and the Developers have entered into agreements which requires the Developers to fund costs associated with water, sanitary sewer and drainage facilities, roads and operating advances. Reimbursement to the Developers for these projects and operating advances is contingent upon approval from the Commission and the future sale of bonds.

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant changes in coverage from the prior year and there have been no settlements.

NOTE 10. BOND SALES

On October 12, 2016, the District closed on the sale of its Series 2016 Unlimited Tax Road Bonds in the amount of \$6,070,000. Proceeds from the bond sale were used to reimburse the developer for paving, drainage and related road improvements to serve Phases 1A, 1B, 2A, and 2B, Inspiration Boulevard, and FM 2514 improvements, right-of-way acquisition, and engineering costs. Additional proceeds were used to provide for bond issuance costs and to fund 24 months of capitalized interest on the bonds.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

NOTE 10. BOND SALES (Continued)

On November 15, 2017, subsequent to year-end, the District closed on the sale of its Series 2017 Unlimited Tax Road Bonds in the amount of \$4,695,000. Proceeds from the bond sale were used to reimburse the developer for grading and paving to serve Inspiration phases 2A, 2B, 3A, 3B, 3C, and 4 and 5A and engineering costs. Additional proceeds will be used to provide for bond issuance costs and to fund capitalized interest on the bonds.

NOTE 11. NONSTANDARD SERVICE CONTRACT WITH WYLIE NORTHEAST SPECIAL UTILITY DISTRICT

The Wylie Northeast Special Utility District (“Wylie Northeast SUD”), a political subdivision of the State of Texas created under the authority of Section 59, Article XVI of the State Constitution, is the retail provider of water and sanitary sewer services to the District pursuant to an assigned Non-Standard Service Contract with Wylie Northeast SUD (the “Contract”) from Hanover Property Company. The original agreement was executed on September 3, 2008. Pursuant to the Contract, Wylie Northeast SUD pledges to deliver certain water supply and wastewater services as required to serve the needs of the property owners within the District.

Water Supply

The District obtains water from the Wylie Northeast SUD. Pursuant to the Contract, the District has rights to develop up to approximately 2,104 equivalent single family residential connections (“ESFC”) for water. This is estimated to provide water for 2,058 single family residential homes, one amenity center and approximately 6.1 acres of commercial development.

Wylie Northeast SUD holds the Water Certificate of Convenience and Necessity (“CCN”) No. 10192 originally issued by the Commission. North Texas Municipal Water District (“NTMWD”) supplies water to Wylie Northeast SUD via an existing wholesale water supply contract. Jurisdiction over water and sewer CCN was transferred to the Public Utility Commission of Texas effective September 1, 2014.

Wylie Northeast SUD charges a Water Connection Fee which includes a standard residential meter to be installed by Wylie Northeast SUD and reflects all administrative, equipment, water system improvement costs and other lawful costs divided by the number of ESFC within the District at ultimate build-out. The Developer is required to install a meter vault, tap, meter riser with appurtenances and service line for all service connections during the construction of the lots. The Developer pays a deposit to Wylie Northeast SUD for each water service ESFC.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2017**

**NOTE 11. NONSTANDARD SERVICE CONTRACT WITH WYLIE NORTHEAST
SPECIAL UTILITY DISTRICT (Continued)**

Wastewater Treatment

The District obtains wastewater service from Wylie Northeast SUD. Wylie Northeast SUD has also been issued a permit to construct a wastewater treatment plant to service the District, subject to certain conditions. Wylie Northeast SUD holds the Sewer CCN No. 21056 issued by the Commission.

Wylie Northeast SUD charges a Wastewater Connection fee which reflects all administrative, equipment, wastewater system improvement costs and other lawful costs divided by the number of ESFC within the District at ultimate build-out. The Developer installs all customer equipment, facilities, and appurtenances necessary for Wylie Northeast SUD to provide retail sewer service to each sewer connection in the District. The Developers pay a deposit to Wylie Northeast SUD for each sewer service ESFC.

The District conveys its rights, title and interest to and maintenance, operation and repair obligations for the water and wastewater systems to Wylie Northeast SUD pursuant to the Contract.

NOTE 12. PRIOR PERIOD ADJUSTMENTS

Historically, infrastructure constructed by Developers for the purposes of providing water service and wastewater service to District residents was conveyed to other entities for ownership and maintenance and treated as an expense in the Statement of Activities. It has been determined that a more appropriate treatment of these costs in the District's government-wide financial statements would be as an intangible asset to be amortized over a period of 50 years. The effect of the adjustment is as follows:

Net Position - September 1, 2016	\$ (9,425,718)
Effect of Adjustment	<u>7,548,768</u>
Net Position - September 1, 2016, As Adjusted	<u>\$ (1,876,950)</u>

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3**

REQUIRED SUPPLEMENTARY INFORMATION

AUGUST 31, 2017

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 120,650	\$ 133,922	\$ 13,272
Garbage Revenues	<u>28,061</u>	<u>35,433</u>	<u>7,372</u>
TOTAL REVENUES	<u>\$ 148,711</u>	<u>\$ 169,355</u>	<u>\$ 20,644</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 105,000	\$ 184,054	\$ (79,054)
Contracted Services	32,940	39,208	(6,268)
Purchased Services	25,000	184,623	(159,623)
Utilities	31,800	38,450	(6,650)
Repairs and Maintenance	35,000	32,400	2,600
Other	<u>116,517</u>	<u>68,153</u>	<u>48,364</u>
TOTAL EXPENDITURES	<u>\$ 346,257</u>	<u>\$ 546,888</u>	<u>\$ (200,631)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (197,546)</u>	<u>\$ (377,533)</u>	<u>\$ (179,987)</u>
OTHER FINANCING SOURCES(USES)			
Developer Advances	<u>\$ 198,000</u>	<u>\$ 354,500</u>	<u>\$ 156,500</u>
NET CHANGE IN FUND BALANCE	\$ 454	\$ (23,033)	\$ (23,487)
FUND BALANCE - SEPTEMBER 1, 2016	<u>36,975</u>	<u>36,975</u>	<u></u>
FUND BALANCE - AUGUST 31, 2017	<u>\$ 37,429</u>	<u>\$ 13,942</u>	<u>\$ (23,487)</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3**

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

AUGUST 31, 2017

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
SERVICES AND RATES
FOR THE YEAR ENDED AUGUST 31, 2017**

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

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

2. RETAIL SERVICE PROVIDERS

Water and wastewater services are provided by the Wylie Northeast Special Utility District. See Note 11.

3. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County in which District is located:

Collin County, Texas

Is the District located within a city?

Entirely Partly Not at all X

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely Partly X Not at all

ETJ's in which District is located:

City of Lucas, Texas; City of Wylie, Texas; and Town of St. Paul, Texas

Are Board Members appointed by an office outside the District?

Yes No X

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2017**

PROFESSIONAL FEES:	
Auditing	\$ 9,800
Engineering	145,988
Legal	<u>28,266</u>
TOTAL PROFESSIONAL FEES	<u>\$ 184,054</u>
PURCHASED SERVICES	<u>\$ 184,623</u>
CONTRACTED SERVICES:	
Bookkeeping	<u>\$ 9,164</u>
UTILITIES	<u>\$ 38,450</u>
REPAIRS AND MAINTENANCE	<u>\$ 32,400</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 7,500
Insurance	4,736
Payroll Taxes	574
Water Authority Assessment	1,882
Other	<u>1,869</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 16,561</u>
SOLID WASTE DISPOSAL	<u>\$ 30,044</u>
BOND ISSUANCE COSTS	<u>\$ 51,592</u>
TOTAL EXPENDITURES	<u><u>\$ 546,888</u></u>

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
INVESTMENTS
AUGUST 31, 2017**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX0966	0.60%	01/15/18	\$ 245,000	\$ 188
Certificate of Deposit	XXXX0536	1.10%	02/27/18	<u>725,000</u>	<u> </u>
TOTAL DEBT SERVICE FUND				<u>\$ 970,000</u>	<u>\$ 188</u>

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2017**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - SEPTEMBER 1, 2016	\$	-0-	\$	-0-
Adjustments to Beginning Balance	<u>-0-</u>	\$ -0-	<u>-0-</u>	\$ -0-
Original 2016 Tax Levy	\$	134,189	\$	536,755
Adjustment to 2016 Tax Levy	<u>(23)</u>	<u>134,166</u>	<u>(91)</u>	<u>536,664</u>
TOTAL TO BE ACCOUNTED FOR		\$ 134,166		\$ 536,664
TAX COLLECTIONS:				
Prior Years	\$		\$	
Current Year	<u>133,922</u>	<u>133,922</u>	<u>535,690</u>	<u>535,690</u>
TAXES RECEIVABLE - AUGUST 31, 2017		<u>\$ 244</u>		<u>\$ 974</u>
TAXES RECEIVABLE BY YEAR:				
2016		<u>\$ 244</u>		<u>\$ 974</u>

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2017**

	2016	2015
TOTAL PROPERTY VALUATIONS	\$ 67,082,952	\$ 33,036,496
TAX RATES PER \$100 VALUATION:		
Debt Service	\$ 0.80	\$ 0.80
Maintenance	0.20	0.20
TOTAL TAX RATES PER \$100 VALUATION	\$ 1.00	\$ 1.00
ADJUSTED TAX LEVY*	\$ 670,830	\$ 330,365
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	99.82 %	100.00 %

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

Maintenance Tax – Maximum tax rate of \$1.20 per \$100 assessed valuation approved by voters on November 8, 2011.

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
AUGUST 31, 2017**

S E R I E S - 2 0 1 5 R O A D

Due During Fiscal Years Ending August 31	Principal Due September 15	Interest Due September 15/ March 15	Total
2018	\$ 130,000	\$ 185,106	\$ 315,106
2019	135,000	182,456	317,456
2020	140,000	179,706	319,706
2021	145,000	176,675	321,675
2022	145,000	173,231	318,231
2023	150,000	169,356	319,356
2024	160,000	164,894	324,894
2025	165,000	160,019	325,019
2026	170,000	154,781	324,781
2027	175,000	148,956	323,956
2028	185,000	142,656	327,656
2029	195,000	135,884	330,884
2030	200,000	128,600	328,600
2031	210,000	120,650	330,650
2032	220,000	112,050	332,050
2033	235,000	102,950	337,950
2034	245,000	93,350	338,350
2035	255,000	83,191	338,191
2036	270,000	72,362	342,362
2037	285,000	60,916	345,916
2038	300,000	48,662	348,662
2039	315,000	35,594	350,594
2040	330,000	21,888	351,888
2041	350,000	7,438	357,438
2042			
	<u>\$ 5,110,000</u>	<u>\$ 2,861,371</u>	<u>\$ 7,971,371</u>

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
AUGUST 31, 2017**

SERIES - 2016 ROAD

Due During Fiscal Years Ending August 31	Principal Due September 15	Interest Due September 15/ March 15	Total
2018	\$	\$ 189,881	\$ 189,881
2019	175,000	188,131	363,131
2020	180,000	184,581	364,581
2021	180,000	180,981	360,981
2022	190,000	177,281	367,281
2023	195,000	173,431	368,431
2024	190,000	169,581	359,581
2025	200,000	164,681	364,681
2026	205,000	158,607	363,607
2027	210,000	152,381	362,381
2028	215,000	146,006	361,006
2029	220,000	139,481	359,481
2030	230,000	132,588	362,588
2031	235,000	125,175	360,175
2032	240,000	117,456	357,456
2033	245,000	109,422	354,422
2034	255,000	100,984	355,984
2035	265,000	92,044	357,044
2036	270,000	82,681	352,681
2037	280,000	73,056	353,056
2038	285,000	63,169	348,169
2039	295,000	52,835	347,835
2040	305,000	41,960	346,960
2041	315,000	30,722	345,722
2042	690,000	12,506	702,506
	<u>\$ 6,070,000</u>	<u>\$ 3,059,621</u>	<u>\$ 9,129,621</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
AUGUST 31, 2017**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending August 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	\$ 130,000	\$ 374,987	\$ 504,987
2019	310,000	370,587	680,587
2020	320,000	364,287	684,287
2021	325,000	357,656	682,656
2022	335,000	350,512	685,512
2023	345,000	342,787	687,787
2024	350,000	334,475	684,475
2025	365,000	324,700	689,700
2026	375,000	313,388	688,388
2027	385,000	301,337	686,337
2028	400,000	288,662	688,662
2029	415,000	275,365	690,365
2030	430,000	261,188	691,188
2031	445,000	245,825	690,825
2032	460,000	229,506	689,506
2033	480,000	212,372	692,372
2034	500,000	194,334	694,334
2035	520,000	175,235	695,235
2036	540,000	155,043	695,043
2037	565,000	133,972	698,972
2038	585,000	111,831	696,831
2039	610,000	88,429	698,429
2040	635,000	63,848	698,848
2041	665,000	38,160	703,160
2042	690,000	12,506	702,506
	<u>\$ 11,180,000</u>	<u>\$ 5,920,992</u>	<u>\$ 17,100,992</u>

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED AUGUST 31, 2017**

Description	Original Bonds Issued	Bonds Outstanding September 1, 2016
Collin County Water Control and Improvement District No. 3 Unlimited Tax Road Bonds - Series 2015	\$ 5,110,000	\$ 5,110,000
Collin County Water Control and Improvement District No. 3 Unlimited Tax Road Bonds - Series 2016	<u>6,070,000</u>	<u>5,110,000</u>
	<u>\$ 11,180,000</u>	<u>\$ 5,110,000</u>

Bond Authority:	Water, Sewer and Drainage Refunding Bonds	Road Refunding Bonds	Water, Sewer and Drainage Bonds	Road Bonds
Amount Authorized by Voters	\$ 130,500,000	\$ 94,500,000	\$ 87,000,000	\$ 63,000,000
Amount Issued	<u> </u>	<u> </u>	<u> </u>	<u>11,180,000</u>
Remaining to be Issued	<u>\$ 130,500,000</u>	<u>\$ 94,500,000</u>	<u>\$ 87,000,000</u>	<u>\$ 51,820,000</u>

Debt Service Fund cash and investment balances as of August 31, 2017: \$ 1,307,706

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 684,040

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding August 31, 2017</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$	\$ 186,406	\$ 5,110,000	Amegy Bank, N.A. Plano, TX
<u>6,070,000</u>		<u>80,700</u>	<u>6,070,000</u>	Amegy Bank, N.A. Plano, TX
<u>\$ 6,070,000</u>	<u>\$ - 0 -</u>	<u>\$ 267,106</u>	<u>\$ 11,180,000</u>	

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - TWO YEARS**

	Amounts		Percentage of Total Revenues	
	2017	2016	2017	2016
REVENUES				
Property Taxes	\$ 133,922	\$ 66,073	79.1 %	93.1 %
Garbage Revenues	<u>35,433</u>	<u>4,929</u>	<u>20.9</u>	<u>6.9</u>
TOTAL REVENUES	<u>\$ 169,355</u>	<u>\$ 71,002</u>	<u>100.0 %</u>	<u>100.0 %</u>
EXPENDITURES				
Professional Fees	\$ 184,054	\$ 94,352	108.7 %	132.9 %
Contracted Services	39,208	14,850	23.2	20.9
Purchased Services	184,623	493,273	109.0	694.7
Utilities	38,450	32,412	22.7	45.6
Repairs and Maintenance	32,400	21,861	19.1	30.8
Other	<u>68,153</u>	<u>17,776</u>	<u>40.2</u>	<u>25.0</u>
TOTAL EXPENDITURES	<u>\$ 546,888</u>	<u>\$ 674,524</u>	<u>322.9 %</u>	<u>949.9 %</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (377,533)</u>	<u>\$ (603,522)</u>	<u>(222.9) %</u>	<u>(849.9) %</u>
OTHER FINANCING SOURCES (USES)				
Developer Advances	<u>\$ 354,500</u>	<u>\$ 647,000</u>		
NET CHANGE IN FUND BALANCE	\$ (23,033)	\$ 43,478		
BEGINNING FUND BALANCE	<u>36,975</u>	<u>(6,503)</u>		
ENDING FUND BALANCE	<u><u>\$ 13,942</u></u>	<u><u>\$ 36,975</u></u>		

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - TWO YEARS**

	Amounts		Percentage of Total Revenues	
	2017	2016	2017	2016
REVENUES				
Property Taxes	\$ 535,690	\$ 264,292	98.9 %	99.0 %
Penalty and Interest	2,780	1,810	0.5	0.7
Miscellaneous Revenues	<u>3,257</u>	<u>858</u>	<u>0.6</u>	<u>0.3</u>
TOTAL REVENUES	<u>\$ 541,727</u>	<u>\$ 266,960</u>	<u>100.0 %</u>	<u>100.0 %</u>
EXPENDITURES				
Tax Collection Expenditures	\$ 5,459	\$ 3,306	1.0 %	1.2 %
Debt Service Interest and Fees	<u>267,506</u>	<u>78,187</u>	<u>49.4</u>	<u>29.3</u>
TOTAL EXPENDITURES	<u>\$ 272,965</u>	<u>\$ 81,493</u>	<u>50.4 %</u>	<u>30.5 %</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 268,762</u>	<u>\$ 185,467</u>	<u>49.6 %</u>	<u>69.5 %</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Long-Term Debt	<u>\$ 431,053</u>	<u>421,437</u>		
NET CHANGE IN FUND BALANCE	\$ 699,815	\$ 606,904		
BEGINNING FUND BALANCE	<u>606,904</u>	<u>- 0 -</u>		
ENDING FUND BALANCE	<u>\$ 1,306,719</u>	<u>\$ 606,904</u>		
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>**</u>	<u>**</u>		
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>**</u>	<u>**</u>		

** Water and wastewater services are provided by the Wylie Northeast Special Utility District. See Note 11.

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
AUGUST 31, 2017**

District Mailing Address - Collin County Water Control and Improvement District No. 3
c/o Coats Rose, P.C.
14755 Preston Road, Suite 600
Dallas, TX 75254

District Telephone Number - (972) 982-8455

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended August 31, 2017	Expense Reimbursements for the year ended August 31, 2017	Title
Tommy Thomas	05/14 05/18 (Elected)	\$ 1,800	\$ -0-	President
Robert H. Simmons	05/14 05/18 (Elected)	\$ 1,500	\$ -0-	Vice President
Peter Crow	05/16 05/20 (Elected)	\$ 1,650	\$ -0-	Secretary
Traci Miller	05/14 05/18 (Appointed)	\$ 750	\$ -0-	Assistant Secretary
Mike Reil	05/16 05/20 (Elected)	\$ 1,800	\$ -0-	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
June 7, 2017

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on August 30, 2011. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**COLLIN COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
AUGUST 31, 2017**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended August 31, 2017</u>	<u>Title</u>
Coats Rose, P.C.	08/30/11	\$ 28,266 \$ 163,950	General Counsel/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	09/17/15	\$ 9,800 \$ 9,000	Auditor Bond Related
L&S District Services, LLC	04/12/16	\$ 10,064	Bookkeeper
Cindy Schmidt	08/30/11	\$ -0-	Investment Officer
Jacobs Engineering Group Inc.	08/21/13	\$ 167,061	Engineer
FirstSouthwest, a Division of Hilltop Securities Inc.	06/11/14	\$ 114,784	Financial Advisor
Collin County Tax Office	09/17/15	\$ 1,254	Tax Assessor/ Collector

See accompanying independent auditor's report.

(This Page Intentionally Blank)

APPENDIX B

Operating and Debt Service Budget of the District for the year ended August 31, 2018

The information contained in this appendix includes the Operating and Debt Service Budget of the District of Collin County Water Control and Improvement District No. 3 and certain supplemental unaudited information for the fiscal year ended July 31, 2018.

Collin County WCID 3

	Actuals as of 08/14/2018	Budget for 08/31/2018	Proposed Budget for 08/31/2019
<u>Income</u>			
Bulk Water Sales	1,705.85	4,000.00	2,500.00
Garbage Service Revenue	36,595.50	32,000.00	70,000.00
Maintenance Tax	234,888.69	218,500.00	399,135.00
Interest Income	195.53	0.00	0.00
Developer Advances	\$ 232,500.00	\$ 219,550.00	\$ 0.00
Total Income	\$ 505,885.57	\$ 474,050.00	\$ 471,635.00
<u>Water Expenses</u>			
Bulk Water Purchases	\$ 30,576.05	\$ 19,000.00	\$ 33,400.00
NTGCD Pumpage Fees	1,498.80	5,000.00	2,000.00
<u>Sewer Expenses</u>			
Permit Fees	\$ 0.00	\$ 1,000.00	\$ 1,000.00
Pump and Haul - Wylie NE SUD	6,564.52	150,000.00	0.00
<u>Other Expenses</u>			
Director Fees	\$ 7,500.00	\$ 9,720.00	\$ 9,000.00
Payroll Tax Expense	573.77	780.00	780.00
Legal Fees	23,612.14	30,000.00	30,000.00
Audit Fees	10,500.00	9,800.00	11,000.00
Engineering Fees	63,260.03	125,000.00	125,000.00
Bookkeeping Fees	8,447.31	9,000.00	9,000.00
M & R - Other Facilities / Landscape	32,400.00	35,000.00	35,000.00
Utilities	53,169.36	38,000.00	58,000.00
Insurance	4,736.00	4,750.00	4,750.00
Other Expenses	1,240.00	2,000.00	2,000.00
Security Expense	55,312.48	0.00	55,400.00
Garbage Expense	58,350.94	35,000.00	78,000.00
<u>Capital Outlay</u>			
Capital Outlay - Facilities	\$ 65,000.00	\$ 0.00	\$ 0.00
Total Expenses	\$ 422,741.40	\$ 474,050.00	\$ 454,330.00
Net Gain	\$ 83,144.17	\$ 0.00	\$ 17,305.00

Maintenance tax = \$203,640,176 estimated value, .20 rate @ 98% collection rate

APPENDIX C

Estimate of Taxable Assessed Value as of July 23, 2018

(This Page Intentionally Blank)



Collin Central Appraisal District

July 23, 2018

(delivery via email to Barry Jameson)

TO: Board of Directors CCWCID#3, Huffines Communities

FROM: Bo Daffin, Chief Appraiser *Bo Daffin*

RE: July 23, 2018, Certified Estimate of Taxable Value

Per your request, as provided by the Texas Property Tax Code, please be advised that I hereby certify that the estimated taxable value of properties located in the Collin County Water Control & Improvement District (CCWCID #3) as of July 23, 2018, is \$249,000,000.

(This Page Intentionally Blank)

APPENDIX D

Form of Bond Counsel's Opinion

(This Page Intentionally Blank)

COATS | ROSE

A PROFESSIONAL CORPORATION

October 10, 2018

WE HAVE ACTED as bond counsel in connection with the issuance by Collin County Water Control and Improvement District No. 3 (the "District") of its bonds styled "Collin County Water Control and Improvement District No. 3 Unlimited Tax Road Bonds, Series 2018" (the "Bonds") dated September 15, 2018, issued in the aggregate principal amount of \$7,100,000, maturing on September 15 in the years 2020 through 2036, 2038, 2040, and 2043. The Bonds maturing in the years 2029 and thereafter are subject to redemption prior to maturity on September 15, 2028, or on any date thereafter, for the par value thereof plus accrued and unpaid interest to the date of redemption. The Bonds maturing in 2038, 2040, and 2043 (the "Term Bonds") are subject to mandatory redemption, subject to reduction by prior cancellation or optional redemption, at a price equal to the principal amount of the Bonds or the portions thereof so called for redemption plus accrued interest to the date fixed for redemption.

THE BONDS BEAR INTEREST from September 15, 2018 or from the most recent interest payment date to which interest has been paid or duly provided for with such interest being payable on March 15, 2019 and semiannually thereafter on each September 15 and March 15 thereafter to maturity, at the following interest rates for the respective maturity dates of the Bonds:

<u>Principal Amount</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
\$195,000	2020	6.000%
\$200,000	2021	6.000%
\$205,000	2022	6.000%
\$210,000	2023	6.000%
\$215,000	2024	5.000%
\$225,000	2025	3.000%
\$230,000	2026	3.000%
\$240,000	2027	3.000%
\$245,000	2028	3.000%
\$255,000	2029	3.000%
\$265,000	2030	3.000%
\$275,000	2031	3.125%
\$285,000	2032	3.250%
\$300,000	2033	3.375%
\$310,000	2034	3.500%
\$325,000	2035	3.500%
\$335,000	2036	3.500%

14755 PRESTON ROAD, SUITE 600, DALLAS, TEXAS 75254

PHONE: (972) 788-1600 FAX: (972) 702-0662

WEB: www.coatsrose.com

The Term Bonds are subject to mandatory redemption on September 15 in the year and in the amount set forth below (subject to reduction by optional redemption as herein provided) at a price equal to the principal amount of such Bond or the portions thereof so called for redemption plus accrued interest to the date fixed for redemption:

\$715,000
Term Bond

Due: September 15, 2038
Interest Rate: 3.750%

<u>Principal Amount</u>	<u>Redemption Date</u>
\$350,000	September 15, 2037
\$365,000	September 15, 2038

\$775,000
Term Bond

Due: September 15, 2040
Interest Rate: 3.750%

<u>Principal Amount</u>	<u>Redemption Date</u>
\$380,000	September 15, 2039
\$395,000	September 15, 2040

\$1,295,000
Term Bond

Due: September 15, 2043
Interest Rate: 3.750%

<u>Principal Amount</u>	<u>Redemption Date</u>
\$415,000	September 15, 2041
\$430,000	September 15, 2042
\$450,000	September 15, 2043

Said interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months, and shall be payable on March 15, 2019, and semi-annually thereafter on September 15 and March 15 of each year until maturity of the pertinent Bond.

IN OUR CAPACITY AS BOND COUNSEL, we have participated in the preparation of and have examined a transcript of materials pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board of Directors of the District, including, among other things, an order authorizing the issuance of the Bonds (the "Bond Order"), together with certificates of officers, agents and representatives of

the District and other documents relating to the authorization and issuance of the Bonds. We have also reviewed and examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, court decisions, and rulings of the Internal Revenue Service and such other materials as we deemed necessary to render the opinions hereinafter expressed.

BASED ON SUCH EXAMINATION, WE ARE OF THE OPINION THAT:

1. The Bonds have been duly authorized and issued in conformity with the Constitution and laws of the State of Texas now in force and are valid and legally binding obligations of the District, enforceable in accordance with the terms and conditions set forth therein, except to the extent that the enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting creditors' rights or by the exercise of judicial discretion in accordance with general principles of equity.

2. The Bonds are payable, as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, on all taxable property in the District not exempt from taxation by or under applicable law. Furthermore, the District is required to levy and assess, for each year while any of the Bonds are outstanding, an ad valorem tax on all taxable property within the District sufficient to pay interest on and the maturing principal of the Bonds, and the expenses of assessing and collecting such tax, as provided in the Bond Order.

3. Interest on the Bonds is excludable from gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code and existing regulations, court decisions, and rulings, assuming continuing compliance by the District with the provisions of the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

In providing the foregoing opinions, we have relied upon representations of the District with respect to matters solely within the knowledge of the District, which we have not independently verified, and we have assumed the accuracy and completeness of, and the District's continuing compliance with, the representations and covenants contained in the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete, or the District fails to comply with the foregoing provisions of the Bond Order, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion with respect to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. The law upon which this opinion is based is subject to change by the Congress and the Department of the Treasury and by subsequent judicial and administrative interpretation. There can be no assurance that such law or the interpretation thereof will not be changed in a manner that would adversely affect the tax treatment of ownership of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to financial institutions, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, owners of interests in a FASIT, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Owners of the Bonds should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

COATS ROSE, P.C.

APPENDIX E

Specimen Municipal Bond Insurance Policy

(This Page Intentionally Blank)



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Financial Advisory Services
Provided By

