

**OFFICIAL STATEMENT DATED SEPTEMBER 13, 2018**

**IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF THE DISTRICT, 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 FEDERAL INCOME TAXATION. SEE "LEGAL MATTERS."**

The District has not designated the Bonds as "qualified tax-exempt obligations" for financial institutions.

NEW ISSUE – Book Entry Only

S&P (BAM Insured)..... "AA"

**\$6,800,000**

**HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1**

(A Political Subdivision of the State of Texas Located within Denton County)

**UNLIMITED TAX UTILITY BONDS**

**SERIES 2018**

Dated: October 1, 2018

Due: May 1, as shown on inside cover page

The \$6,800,000 Unlimited Tax Utility Bonds, Series 2018 (the "Bonds"), are obligations of Highway 380 Municipal Management District No. 1 (the "District") and are not obligations of the State of Texas; Denton County, Texas; the Town of Little Elm, Texas; or any entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Denton County, Texas; the Town of Little Elm, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to 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 ZB, National Association, dba Amegy Bank, Houston, Texas, or any successor paying agent/registrar (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 "THE BONDS – Book-Entry-Only System."

Principal of the Bonds is payable to the registered owner(s) of the Bonds at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds accrues from October 1, 2018, and is payable on May 1, 2019, and each November 1 and May 1 thereafter until maturity or prior redemption to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date. The Bonds are issuable in principal denominations of \$5,000 or any integral multiple thereof in fully registered form only.

**See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on inside cover.**

The Bonds are the second series of unlimited tax bonds to be issued by the District for the purpose of acquiring or constructing a water, sewer, and drainage system to serve the District (the "Utility System"). Previously, the District has also issued two series of unlimited tax bonds for the purpose of acquiring or constructing roads and improvements in aid thereof to serve the District (the "Road System"). At an election held on May 9, 2015, voters of the District authorized \$62,000,000 principal amount of unlimited tax bonds for the Utility System and \$99,000,000 principal amount of unlimited tax bonds for the Road System. At an election held on May 7, 2016, voters of the District authorized an additional \$7,825,000 principal amount of unlimited tax bonds for the Utility System and \$19,450,000 principal amount of unlimited tax bonds for the Road System. Following the issuance of the Bonds, \$59,865,000 principal amount of unlimited tax bonds for Utility System purposes and \$108,685,000 principal amount of unlimited tax bonds for Road System purposes will remain authorized but unissued. See "THE BONDS."

The Bonds, when issued, will be payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by the District against all taxable property within the District. Investment in the Bonds is subject to risk factors as described herein. See "RISK FACTORS."

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 **BUILD AMERICA MUTUAL ASSURANCE COMPANY.**



The Bonds are offered when, as, and if issued by the District and are also offered subject, among other things, to the approval of the Attorney General of Texas and of Coats Rose, P.C., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about October 11, 2018.

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS**

**\$6,800,000 Unlimited Tax Utility Bonds, Series 2018**

Maturity (May 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (May 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$175,000	5.500%	2.000%	43124A DA3	2030 (c)	\$255,000	3.000%	3.300%	43124A DL9
2021	180,000	5.500%	2.150%	43124A DB1	2031 (c)	265,000	3.125%	3.400%	43124A DM7
2022	185,000	5.500%	2.300%	43124A DC9	2032 (c)	280,000	3.250%	3.500%	43124A DN5
2023	195,000	5.500%	2.450%	43124A DD7	2033 (c)	290,000	3.375%	3.600%	43124A DP0
2024 (c)	200,000	5.500%	2.460%	43124A DE5	2034 (c)	300,000	3.500%	3.650%	43124A DQ8
2025 (c)	210,000	5.500%	2.470%	43124A DF2	2035 (c)	315,000	3.500%	3.700%	43124A DR6
2026 (c)	220,000	4.750%	2.550%	43124A DG0	2036 (c)	325,000	3.500%	3.750%	43124A DS4
2027 (c)	230,000	3.000%	3.000%	43124A DH8	2037 (c)	340,000	3.625%	3.800%	43124A DT2
2028 (c)	235,000	3.000%	3.100%	43124A DJ4	2038 (c)	355,000	3.625%	3.820%	43124A DU9
2029 (c)	245,000	3.000%	3.200%	43124A DK1	2039 (c)	370,000	3.625%	3.840%	43124A DV7

\$785,000 Term Bonds Due May 1, 2041 (c) (d), Interest Rate: 3.750% (Price: \$98.351) (a), CUSIP Number 43124A DX3 (b)

\$845,000 Term Bonds Due May 1, 2043 (c) (d), Interest Rate: 3.750% (Price: \$98.107) (a), CUSIP Number 43124A DZ8 (b)

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- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser (as herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) 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 owners of the Bonds.
- (c) Bonds maturing on May 1, 2024, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on May 1, 2023, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – *Optional Redemption*."
- (d) Subject to mandatory redemption as set out herein under "THE BONDS – Redemption Provisions – *Mandatory Redemption*."

**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 or the Initial Purchaser.

This Official Statement is not to be used in connection with 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, orders, contracts, records, and engineering and other related reports set forth in the 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 the District, c/o Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, Texas 75254, upon payment of the costs for duplication thereof.

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 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, other matters described in the Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT - Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

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, Rule 15c2-12 of the United States Securities and Exchange Commission ("SEC"), as amended.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B - Specimen Municipal Bond Insurance Policy."

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## **SALE AND DISTRIBUTION OF THE BONDS**

### **Award and Marketing of the Bonds**

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 97.000000% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.858531%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

### **Prices and Marketability**

Subject to certain restrictions described in the Official Notice of Sale, the District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid and asked prices 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.

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser 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 or held at initial offering prices. For this purpose, the term "public" shall not include any person who is a bondhouse, broker, or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

Subject to certain restrictions described in the Official Notice of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser 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 THIS OFFERING, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

### **Securities Laws**

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any 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 should 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 jurisdictions.

### **Delivery of Official Statements**

The District shall furnish to the Initial Purchaser (and to each participating underwriter of the Bonds, within the meaning of SEC Rule 15c2-12(a), designated by the Initial Purchaser), within seven (7) business days after the sale date, the aggregate number of Official Statements agreed upon between the District and the Initial Purchaser. The District also shall furnish to the Initial Purchaser a like number of any supplements or amendments approved and authorized for distribution by the District for dissemination to potential underwriters of the Bonds, as well as such additional copies of the Official Statement or any such supplements or amendments as the Initial Purchaser may reasonably request prior to the 90<sup>th</sup> day after the end of the underwriting period described in SEC Rule 15c2-12(f)(2). The District shall pay the expense of preparing the

number of copies of the Official Statement agreed upon between the District and the Initial Purchaser and an equal number of any supplements or amendments issued on or before the delivery date, but the Initial Purchaser shall pay for all other copies of the Official Statement or any supplement or amendment thereto.

## **MUNICIPAL BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) 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 attached as “APPENDIX B” 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.

### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

### *Capitalization of BAM*

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2018, and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$519.5 million, \$99.3 million and \$420.2 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under this heading "MUNICIPAL BOND INSURANCE."

*Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditisights/](http://buildamerica.com/creditisights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Credit Profiles.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Disclaimers.** The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

#### **RATING**

The Bonds are expected to receive an insured rating of "AA" from S&P solely in reliance upon the issuance of the municipal bond insurance policy by BAM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. A security rating is not a recommendation to buy, sell, or hold securities. Furthermore, there is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant.

The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P.

**OFFICIAL STATEMENT SUMMARY**

The following material is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

**THE BONDS**

- The Issuer .....Highway 380 Municipal Management District No. 1 (the “District”), a conservation and reclamation district and a body politic and a political subdivision of the State of Texas, created under the authority of Article III, Section 52, Article III, Section 52-a, and Article XVI, Section 59 of the Texas Constitution and operating under and governed by the provisions of Chapter 3920, Special District Local Laws Code (the “District Act”) and Chapter 375, Local Government Code, and Chapters 49 and 54, Texas Water Code, as amended, is located in the Town of Little Elm, Denton County, Texas. See “THE DISTRICT.”
  
- The Issue .....The District’s \$6,800,000 Unlimited Tax Utility Bonds, Series 2018 (the “Bonds”), are dated October 1, 2018, and mature on May 1 in the years and in the principal amounts as shown on the inside cover page hereof. Interest on the Bonds accrues from October 1, 2018, at the rates shown on the inside cover hereof and is payable on May 1, 2019, and on each November 1 and May 1 thereafter until maturity or prior redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 of principal amount for any one maturity. See “THE BONDS – General.”
  
- Redemption.....The Bonds maturing on and after May 1, 2024, are subject to redemption prior to maturity at the option of the District, in whole or in part, on May 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See “THE BONDS – Redemption Provisions – *Optional Redemption*.” The Bonds that mature on May 1 in each of the years 2041 and 2043 are term bonds that are also subject to the mandatory redemption provisions set out herein under “THE BONDS – Redemption Provisions – *Mandatory Redemption*.”
  
- Source of Payment.....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 by the District against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas; Denton County, Texas; the Town of Little Elm, Texas (the “Town”); or any entity other than the District. See “THE BONDS – Source and Security for Payment.”
  
- Public Improvements Agreement.....Effective October 15, 2013, the District entered into that Public Improvements Agreement and Chapter 380 Economic Development Program and Agreement (the “Public Improvements Agreement”) with the Town and the Developer (hereinafter defined). The Public Improvements Agreement provides for the Town to rebate to the District 46.00% of the ad valorem tax revenue that the Town actually collects on taxable property within the District (the “Rebate”). Pursuant to the Public Improvements Agreement, the Rebate will be used by the District to pay for the design and construction of the District’s Road System (hereinafter



defined), Utility System (hereinafter defined), recreational facilities, firefighting facilities, and/or to pay debt service on bonds issued by the District for such purposes. While the District intends to use the Rebate to pay debt service on the Bonds, the Rebate is **not** pledged to the payment of debt service on the Bonds. See “THE BONDS – Public Improvements Agreement.”

Authority for Issuance.....The Bonds are issued pursuant to an order by the Texas Commission on Environmental Quality (“TCEQ”); Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended; Chapter 375, Local Government Code; an order authorizing issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”); and elections held within the boundaries of the District on May 9, 2015, and May 7, 2016.

The Bonds are the second series of unlimited tax bonds to be issued by the District out of an aggregate \$69,825,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing a water, sewer and drainage system to serve the District (the “Utility System”). After issuance of the Bonds, \$59,865,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System will remain authorized but unissued. See “THE BONDS – Authority for Issuance.”

Outstanding Bonds .....The District has previously issued three series of unlimited tax bonds: one series for the purpose of acquiring or constructing the Utility System and two series for the purpose of acquiring or constructing roads and improvements in aid thereof serving the District (the “Road System”). Of such three series of unlimited tax bonds, all \$12,925,000 principal amount remains outstanding as of September 1, 2018 (the “Outstanding Bonds”).

Payment Record.....The District has never defaulted on the timely payment of principal and interest on its prior bonded indebtedness.

Short-Term Debt.....In connection with the Bonds, the District has issued its \$3,630,000 Bond Anticipation Note, Series 2017, dated December 7, 2017 (the “BAN”), and distributed proceeds from sale of the BAN as described below. The BAN accrues interest at a rate of 2.50% per year (computed on the basis of a 360-day year) and matures on December 8, 2018, unless called for redemption prior to maturity.

Use of Proceeds .....Proceeds from sale of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developer (herein defined) for a portion of the construction costs set out herein under “THE BONDS – Use and Distribution of Bond Proceeds.” Proceeds of the Bonds will also be used to: reimburse the Developer for the portion of said construction costs that was not reimbursed by the BAN, pay twelve (12) months of capitalized interest on the Bonds, and pay costs of issuance associated with the BAN and the Bonds. See “THE BONDS – Use and Distribution of Bond Proceeds” for further information.

Not Qualified Tax-Exempt Obligations ..... The District has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended.

Municipal Bond Insurance ..... Build America Mutual Assurance Company. See “MUNICIPAL BOND INSURANCE” above.

Rating..... S&P (BAM Insured): “AA.” See “RATING” above.

Bond Counsel ..... Coats Rose, P.C., Dallas, Texas.

Disclosure Counsel ..... Orrick, Herrington & Sutcliffe LLP, Houston, Texas.

Financial Advisor..... Robert W. Baird & Co. Incorporated, Houston, Texas.

Paying Agent/Registrar ..... ZB, National Association, dba Amegy Bank, Houston, Texas.

**THE DISTRICT**

Description..... The District is located approximately 32 miles northwest of the central downtown business district of the City of Dallas, Texas, and lies wholly within the corporate limits of the Town. The District is located within Denton Independent School District and is bordered generally by farm land on the north, by FM 1385 on the east, by U.S. Highway 380 on the south, and by Navo Road on the west. Access to the District is provided by the Dallas North Tollway to U.S. Highway 380 and west to Union Park Boulevard.

The District was created pursuant to the District Act; Article III, Section 52, Article III, Section 52-a, and Article XVI, Section 59 of the Texas Constitution; Chapter 375, Local Government Code; and Chapters 49 and 54, Texas Water Code, as amended. See “THE DISTRICT – General.”

Authority..... The rights, powers, privileges, authority, and functions of the District are established by the District Act and include, among others, the power to provide road, recreational, water, sanitary sewer, and drainage facilities. See “THE DISTRICT – General.”

The Developer..... H4 Little Elm, L.P., a Texas limited partnership (“H4 Little Elm”) was formed for the purpose of acquiring and holding for investment and sale tracts of land, including approximately 757 acres of land in the District by and through its affiliate entities such as Union Park Phase 1, LP, Union Park Phase 2, LP, Union Park Phase 2BCD, LP, and Union Park Phase 3A, LP. The partners of H4 Little Elm include: BOH Investments GP, LLC, a Delaware limited liability company (“GP”), and BOH Subpartnership, L.P., a Texas limited partnership (“LP”). GP is the general partner of H4 Little Elm. UPH4 McCutchin, L.P., a Texas limited partnership (“UPH4”) and affiliate of H4 Little Elm, was also formed for the purpose of acquiring and holding certain lands within the District for investment and sale by and through its affiliate entities. UPH4 has acquired approximately 328 acres of land within the District for such purposes. The partners of UPH4 include: GP and UP Project, LLC. GP is the general partner of UPH4. H4 Little Elm and UPH4 have determined the overall development plan for such land in the District and arranged for financing the construction of water, sewer, drainage and road facilities within the District either directly or through affiliate entities. Throughout this Official

Statement, H4 Little Elm and UPH4 and their affiliate entities are referred to collectively as the “Developer.”

The Developer is controlled and managed by Hillwood Residential Services L.P., a Perot Company, a Dallas company owned by H. Ross Perot, Jr., having over 30 years of experience developing land in Texas. Hillwood Residential Services L.P. is an affiliate of Hillwood Development Company, LLC, which is a national real estate development company with development expertise and experience that encompasses diverse product types, including high-rise condominiums, offices, single-family residential communities, distribution centers, regional malls, mixed-use urban development, call centers, hotels, golf courses, airports, intermodal rail yards, corporate campuses, and major air facilities.

Within the District, the Developer and its affiliate entities described herein currently own: approximately 96 acres that are under construction for the development of residential sections, approximately 554 undeveloped but developable acres, and approximately 187 vacant developed lots within the District.

In December of 2016, the Developer sold approximately 114 acres of developable land within the District to Pulte Homes of Texas, L.P. Such acreage is currently under construction for development of 288 lots in the residential subdivision of Del Webb at Union Park Phase 1. In September of 2018, the Developer sold approximately 64 additional acres of developable land within the District to Pulte Homes of Texas, L.P. Such acreage is currently under development for 321 residential lots as the subdivision of Del Webb at Union Park Phase 2. Pulte Homes of Texas, L.P. is a subsidiary of PulteGroup, Inc., which is a publicly traded company on the New York Stock Exchange and a national homebuilder. Pulte Homes of Texas, L.P. is actively developing and building homes in Dallas-Fort Worth, San Antonio, Austin, and Houston. For more information, visit [www.pultegroupinc.com](http://www.pultegroupinc.com). See “THE DEVELOPERS” and “TAX DATA – Principal Taxpayers.”

Union Park.....The master-planned community of Union Park is located entirely within the District. Approximately 3,200 single-family homes are ultimately planned to be constructed within Union Park along with walking trails, a 35-acre central park, a food truck park, a community center with resort-style pool, open air pavilion, and other amenities. See “UNION PARK.”

Status of Development.....The District encompasses approximately 1,085 total acres of land. To date, approximately 246 acres have been developed as approximately 861 single-family lots in the residential subdivisions of Union Park, Phases 1A, 1B, 1C, 2A, 2B, 2C, 2D, and 3A-1. As of August 15, 2018, the District included approximately 400 completed homes (approximately 380 of which being occupied, 12 unoccupied, and 8 model homes), 121 homes under construction, and 340 vacant developed lots available for home construction. In addition, the following residential subdivisions are currently under construction: Union Park, Phase 3A-2, is being constructed on approximately 59 acres for development of 276 single-family lots that are scheduled for delivery in October of 2018; Union Park, Phase 4A, is being constructed on approximately 37 acres for

development of 155 single-family lots that are scheduled for delivery in November of 2018; Del Webb at Union Park, Phase 1, is being constructed on approximately 114 acres for development of 288 single-family lots that are scheduled for delivery in September of 2018; and Del Webb at Union Park, Phase 2, is being constructed on approximately 62 acres for development of 321 single-family lots that are scheduled for delivery in September of 2019.

The remaining land in the District includes: approximately 440 acres planned for development as additional residential sections; approximately 33 acres for Union Park Boulevard; approximately 12 acres on which an elementary school will be constructed; and approximately 82 acres that are planned for development as multi-family and commercial properties. See "UNION PARK" and "STATUS OF DEVELOPMENT."

Homebuilders ..... Builders currently building homes within the District include American Legend Homes, Drees Custom Homes, DR Horton doing business as Emerald Homes, Highland Homes, and MHI Builders doing business as Plantation Homes. The homes being marketed in the District range in size from 1,800 to over 4,200 square feet and in price from approximately \$280,000 to \$525,000. Homebuilding in the District began in late 2015. In 2016, approximately 181 homes were constructed within the District, and from January 2017 through July 2018, there were approximately 214 homes were constructed in the District. See "HOMEBUILDERS WITHIN THE DISTRICT."

**RISK FACTORS**

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN RISK FACTORS. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "RISK FACTORS," BEFORE MAKING AN INVESTMENT DECISION.

*[Remainder of Page Intentionally Left Blank]*

**SELECTED FINANCIAL INFORMATION**  
**(UNAUDITED)**

2018 Taxable Assessed Valuation.....	\$ 161,807,965 (a)
Estimated Valuation as of June 15, 2018 .....	\$ 205,500,000 (b)
Direct Debt:	
The Outstanding Bonds.....	\$ 12,925,000
The Bonds .....	<u>\$ 6,800,000</u>
Total.....	\$ 19,725,000
Estimated Overlapping Debt .....	<u>\$ 17,398,642 (c)</u>
Total Direct and Estimated Overlapping Debt .....	\$ 37,123,642 (c)
Direct Debt Ratio:	
As a percentage of the 2018 Taxable Assessed Valuation.....	12.19 %
As a percentage of the Estimate of Value as of June 15, 2018 .....	9.60 %
Direct and Estimated Overlapping Debt Ratio:	
As a percentage of the 2018 Taxable Assessed Valuation.....	22.94 %
As a percentage of the Estimate of Value as of June 15, 2018 .....	18.07 %
Utility System Debt Service Fund Balance (as of August 2, 2018) .....	\$239,142 (d)
Road System Debt Service Fund Balance (as of August 2, 2018).....	\$444,246 (e)
General Operating Fund Balance (as of August 2, 2018).....	\$111,392

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- (a) Certified taxable assessed value of all taxable property within the District as of January 1, 2018, provided by the Denton Central Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Denton Central Appraisal District for informational purposes only, this amount is an estimate of the taxable value of all taxable property located within the District as of June 15, 2018, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District from January 1, 2018, through June 15, 2018. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT - Estimated Overlapping Debt Statement."
- (d) In addition, upon closing of the Bonds, twelve (12) months of capitalized interest on the Bonds as well as accrued interest will be deposited into this fund. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Road System.
- (e) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Road System Debt Service Fund. Funds in the Road System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Utility System (e.g., the Bonds).

**SELECTED FINANCIAL INFORMATION**  
**(UNAUDITED)**

2018 Tax Rates	
Utility System Debt Service .....	\$0.150 (a)
Road System Debt Service .....	\$0.140 (a)
Maintenance & Operation .....	<u>\$0.225</u>
Total.....	\$0.515
Average Annual Debt Service Requirement (2019–2043) .....	\$1,188,849 (b)
Maximum Annual Debt Service Requirement (2041).....	\$1,258,922 (b)
Combined Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Requirement (2019–2043) at 95% Tax Collections:	
Based on the 2018 Taxable Assessed Valuation .....	\$0.78 (c)
Based on the Estimate of Value as of June 15, 2018.....	\$0.61 (c)
Combined Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Requirement (2041) at 95% Tax Collections:	
Based on the 2018 Taxable Assessed Valuation .....	\$0.82 (c)
Based on the Estimate of Value as of June 15, 2018.....	\$0.65 (c)
Number of Single-Family Homes.....	521 (d)

- 
- (a) The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Utility System and for payment of debt service on bonds issued for the Road System; both such taxes are unlimited as to rate or amount. See "TAX DATA – Tax Rate Calculations" and "RISK FACTORS – Future Debt."
- (b) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."
- (c) The District anticipates that a portion of the debt service on the Bonds will be paid with the Rebate pursuant to the Public Improvements Agreement. Based on the Town's 2018 tax rate of \$0.649900 per \$100 of assessed valuation with a 46% rebate, the District expects to receive a Rebate of approximately \$0.30 per \$100 of assessed valuation that is expected to be used to pay debt service on the Bonds. If such revenues from the Rebate are ever insufficient to make such payments, the District is obligated to levy a debt service tax in an amount sufficient to make such payments. See "THE BONDS – Public Improvements Agreement."
- (d) Approximate number of homes, including 121 under construction, within the District as of August 15, 2018.

## INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Highway 380 Municipal Management District No. 1 (the "District") of its \$6,800,000 Unlimited Tax Utility Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to an order by the Texas Commission on Environmental Quality ("TCEQ"); Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended; Chapter 375, Local Government Code; an order authorizing issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"); and an election held within the boundaries of the District on May 9, 2015.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order. This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report, or instrument.

## RISK FACTORS

### General

The Bonds are obligations of the District and are not obligations of the State of Texas; Denton County, Texas; the Town of Little Elm, Texas (the "Town"); or any political subdivision other than the District. The Bonds are secured by the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied by the District upon all taxable property located within the District. See "THE BONDS – Source and Security for Payment." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential, commercial, retail and multi-family housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

### Factors Affecting Taxable Values and Tax Payments

**Economic Factors:** The rate of development within the District is directly related to the vitality of the residential, commercial, retail and multi-family housing development industry in the Dallas-Fort Worth metropolitan area. New construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. New construction can also be affected by energy availability and costs, including oil and gasoline prices, upon which the Texas economy is heavily dependent. Further declines in the price of oil could adversely affect demand for residential, commercial, retail and multi-family housing industry development. Decreased levels of such construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development in the District. See "STATUS OF DEVELOPMENT."

**Location and Access:** The District is located in an outlying area of the Dallas-Fort Worth metropolitan area, approximately 32 miles northwest from the central business district of the City of Dallas, Texas. As a result, particularly during times of increased competition, the Developer (hereinafter defined) within the District may be at a competitive disadvantage to the developers of other projects located closer to major urban centers or in a more developed state. See "STATUS OF DEVELOPMENT."

**Dependence on Major Taxpayers and the Developer:** The District's tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption "TAX DATA – Principal Taxpayers," the District's ten principal taxpayers in 2018 owned approximately 25% of the

assessed value of property, including personal property, located in the District. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers or (ii) less concentrated in property owned by a relatively small number of property owners than it is currently. Failure by one or more of the District's principal property owners to make full and timely payments of taxes due may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements, the availability of which is uncertain. See "RISK FACTORS – Tax Collections and Foreclosure Remedies" below.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. In 2018, the District levied a total tax rate of \$0.515 per \$100 of assessed valuation composed of a maintenance tax rate of \$0.225, a utility debt service tax rate of \$0.150, and a road debt service tax rate of \$0.140.

***Developer's Obligations to the District:*** There is no commitment by or legal requirement of the Developer or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any owner of property to proceed at any particular pace with the construction of homes or commercial improvements in the District. Moreover, there is no restriction on any landowner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, in the District. Failure to construct taxable improvements would restrict the rate of growth of taxable values in the District and result in higher tax rates.

The Developer is currently advancing funds to the District to supplement the District's ad valorem tax revenues in order to fund the District's operating expenses and maintain a "competitive" District ad valorem tax rate, but it has no obligation to do so. There can be no assurances given as to the financial ability of the Developer to advance any funds to the District to supplement ad valorem tax revenues or as to whether the Developer actually will advance such funds if and to the extent necessary to maintain a "competitive" District tax rate. See "STATUS OF DEVELOPMENT," "THE DEVELOPERS," and "THE DISTRICT."

***Maximum Impact on District Tax Rate:*** Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The taxable assessed valuation as of January 1, 2018, of all taxable property located within the District is \$161,807,965 and the estimate of value as of June 15, 2018, is \$205,500,000. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds (herein defined) and the Bonds (2041) will be \$1,258,922, and the average annual debt service requirement on the Outstanding Bonds and the Bonds (2019–2043) will be \$1,188,849. Assuming no decrease to the District's taxable assessed valuation as of January 1, 2018, combined debt service tax rates of \$0.82 and \$0.78 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no decrease from the estimate of value as of June 15, 2018, combined debt service tax rates of \$0.65 and \$0.61 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. See "DISTRICT DEBT – Debt Service Requirements" and "TAX DATA – Tax Rate Calculations."

The District anticipates that a portion of the debt service on the Bonds will be paid with the Rebate (hereinafter defined) pursuant to the Public Improvements Agreement (hereinafter defined). Based on the Town's 2018 tax rate of \$0.649900 with a 46% rebate, the District expects to receive a Rebate of approximately \$0.30 per \$100 of assessed valuation that is expected to be used to pay debt service on the Bonds but is **not** pledged to the payment of debt service on the Bonds. If such revenues are ever insufficient to make debt service payments, the District is obligated to levy a debt service tax in an amount sufficient to make such payments. No representation can be made as to the Town's future



tax rates and the impact they would have on the anticipated Rebate, or the ability of the District to make debt service payments on the Bonds if the Rebate is unavailable. See “THE BONDS – Public Improvements Agreement.”

Increases in the District’s tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of property within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District.

### **Tax Collections 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 state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by 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 procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney’s fees and other costs of collecting any such taxpayer’s delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a 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 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**

If the District defaults in the payment of principal, interest, or 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 observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners of the Bonds (the “Registered Owners”) have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for 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.

Statutory language authorizing local governments such as the District to sue and 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, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were 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. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or 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.

### **Bankruptcy Limitation to Registered Owners’ Rights**

The enforceability of the rights and remedies of Registered Owners 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. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

Notwithstanding noncompliance by the District with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

If the petitioning District were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district. The District may not be placed into bankruptcy involuntarily.

### **Future Debt**

After the issuance of the Bonds, the District will have \$59,865,000 principal amount of unlimited tax bonds authorized but unissued bonds for water, sewer and drainage facilities and \$104,737,500 for the refunding of such bonds and \$108,685,000 principal amount of unlimited tax bonds for road facilities and \$177,675,000 for the refunding of such bonds. Additional bonds may hereafter be approved by the voters of the District. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt to property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. After the issuance of the Bonds, the District will still owe the Developer approximately \$38,700,000 for construction of road and water, sewer and drainage facilities on behalf of the District. The issuance of additional bonds will be necessary to finance the ultimate development of the remaining lands within the District. See "THE BONDS – Issuance of Additional Debt."

In the fourth quarter of 2018, the District anticipates that it will issue its third series of unlimited tax bonds, in the approximate principal amount of \$4,000,000, for the purpose of acquiring or constructing roads and improvements in aid thereof serving the District. Additionally, in the fourth quarter of 2018, the District anticipates the submission of a bond application to the TCEQ for approval to issue its third series of unlimited tax bonds for the purpose of constructing or acquiring water, sewer, and drainage facilities serving the District and, upon receiving approval from the TCEQ, the sale of such bonds in 2019. In connection with the application to the TCEQ, the District may issue a bond anticipation note to be redeemed by the 2019 bond issue.

### **Future and Proposed Legislation**

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives, or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of

issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

### **Collection of Taxes**

The District's ability to pay debt service on the Bonds may be adversely affected by its ability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien on the property in favor of the District on a parity with the lien of all other state and local authorities. Such lien can be foreclosed in judicial proceedings. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court's stay of a tax collection procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property including the taxpayer's right to redeem property for a specified period of time after foreclosure at the foreclosure sale price. See "TAXING PROCEDURES – Levy and Collection of Taxes."

### **Marketability of the Bonds**

The District has no understanding with the Initial Purchaser 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 may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers, since such bonds are more generally bought, sold and 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 retroactively to the date of original issuance. See "LEGAL MATTERS – Tax Exemption."

### **Approval of the Bonds**

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

### **Bond Insurance Risk Factors**

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 Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the provider of the policy, if any (the "Bond Insurer"), at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

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 moneys received pursuant to the applicable bond documents. 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.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim 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 ratings on 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 "MUNICIPAL BOND INSURANCE."

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies. Neither the District nor the Initial Purchaser have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

## **THE BONDS**

### **General**

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the District upon request to Coats Rose, P.C., Dallas, Texas, Bond Counsel. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

### **Description**

The Bonds are dated October 1, 2018, with interest payable on May 1, 2019, and on each November 1 and May 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from October 1, 2018, and thereafter from the most recent Interest Payment Date to which interest has been paid. The Bonds mature on May 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on the inside cover page hereof.

The Bonds are issued in fully registered form in principal denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be 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. No physical delivery of the Bonds will be made to the purchasers thereof. See "THE BONDS – Book-Entry-Only System." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

### **Source and Security for Payment**

The Bonds are secured by and payable from 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. See "TAXING PROCEDURES." Investment in the Bonds involves 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 "RISK FACTORS." The Bonds are obligations solely of the District and are not obligations of the State of Texas; Denton County, Texas; the Town; or any political subdivision or entity other than the District.

### **Public Improvements Agreement**

Effective October 15, 2013, the District entered into a Public Improvements Agreement and Chapter 380 Economic Development Program and Agreement (the "Public Improvements Agreement") with the Town and the Developer. The Public Improvement Agreement provides for the Town to rebate 46% of the ad valorem tax revenue the Town actually collects on taxable property within the District back to the District (the "Rebate"). Pursuant the Public Improvements Agreement, the Rebate will be used by the District to pay for

the design and construction of the District’s Road System (hereinafter defined), Utility System (hereinafter defined), recreational facilities and/or firefighting facilities or to pay debt service on bonds issued by the District for such purposes.

Based on the Town’s 2018 tax rate of \$0.649900 with a 46% rebate, the District expects to receive a rebate of approximately \$0.30 per \$100 of assessed valuation that is expected to be used to pay debt service on the Bonds but is **not** pledged to the payment of debt service on the Bonds. If such revenues are ever insufficient to make debt service payments, the District is obligated to levy debt service taxes in an amount sufficient to make such payments. No representation can be made as to the Town’s future tax rates and the impact they would have on the anticipated Rebate. See “RISK FACTORS.”

The Town will pay the Rebate to the District on February 28<sup>th</sup> of the year following the year in which the taxes are levied and every 90 days thereafter until the full Rebate for that tax year has been paid. The Town shall withhold from the initial Rebate payment in each year an amount equal to two percent (2%) of the amount payable from the Public Improvements Agreement from the ad valorem tax revenue the Town actually collects on real and personal property within the District after deducting the costs of tax collection, which the Town shall deposit into a sinking fund. All funds remaining in such sinking fund at the conclusion of the Public Improvements Agreement shall be paid to the District with the final Rebate payment. The Public Improvements Agreement shall remain in force and effect until October 15, 2058.

**Dissolution**

Pursuant to the Public Improvements Agreement, the Town waives its right to dissolve the District until such time as (i) all of the Utility System and Road System improvements necessary to serve the full development of the District (including any areas covered by expansions to the boundaries of the District) have been constructed; and (ii) the District has issued bonds to reimburse all of the costs of such improvements.

**Authority for Issuance**

At elections held within the District on May 9, 2015, and May 7, 2016, voters of the District authorized a total of \$69,825,000 in principal amount for unlimited tax bonds for the purpose of acquiring or constructing water, sewer and drainage facilities (the “Utility System”) and a total of \$118,450,000 in principal amount for unlimited tax bonds for the purpose of acquiring or constructing road facilities (the “Road System”). After the issuance of the Bonds, a total of \$59,865,000 in principal amount of unlimited tax bonds for the Utility System and \$108,685,000 in principal amount of unlimited tax bonds for the Road System will remain authorized but unissued.

The Bonds are issued pursuant to an order by the TCEQ; Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended; Chapter 375, Local Government Code; the Bond Order; and an election held within the boundaries of the District on May 9, 2015.

The amount of bonds issued and the remaining authorized but unissued bonds following the issuance of the Bonds are summarized below:

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Remaining Unissued</u>
May 9, 2015	Utility System	\$62,000,000	\$9,960,000 (a)	\$52,040,000
May 7, 2016	Utility System	7,825,000	-	7,825,000
May 9, 2015	Utility System Refunding	93,000,000	-	93,000,000
May 7, 2016	Utility System Refunding	11,767,500	-	11,737,500
May 9, 2015	Road System	99,000,000	9,765,000	89,235,000
May 7, 2016	Road System	19,450,000	-	19,450,000
May 9, 2015	Road System Refunding	148,500,000	-	148,500,000
May 7, 2016	Road System Refunding	29,175,000	-	29,175,000

(a) Includes the Bonds.

## **Outstanding Bonds**

The District has previously issued three series of unlimited tax bonds: one for financing of the Utility System and two series for financing of the Road System. Of such three previous issuances of bonds by the District, as of September 1, 2018, all \$12,925,000 principal amount remains outstanding (the “Outstanding Bonds”).

## **Utility Funds**

The Bond Order confirms the creation of the Utility Capital Projects Fund (the “Utility Capital Projects Fund”) and the Utility System Debt Service Fund (the “Utility System Debt Service Fund”). Accrued interest as well as twelve (12) months of capitalized interest on the Bonds will be deposited into the Utility System Debt Service Fund upon closing of the Bonds. All remaining proceeds of the Bonds will be deposited in the Utility Capital Projects Fund. The Utility System Debt Service Fund, which constitutes a trust fund for the benefit of the Registered Owners of the Outstanding Bonds issued for the Utility System and 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 Outstanding Bonds issued for the Utility System and the Bonds. Amounts on deposit in the Utility System Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Outstanding Bonds issued for the Utility System and the Bonds.

## **Road Funds**

In connection with issuance of the Outstanding Bonds for the Road System, the District has established the Road Capital Projects Fund (the “Road Capital Projects Fund”) and the Road System Debt Service Fund (the “Road System Debt Service Fund” and together with the Utility System Debt Service Fund, the “Debt Service Fund”). The Road System Debt Service Fund, which constitutes a trust fund for the benefit of the Registered Owners of the Outstanding Bonds issued for the Road System is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds issued for the Road System. Amounts on deposit in the Road System Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Outstanding Bonds issued for the Road System.

## **Record Date**

The record date for payment of the interest on any regularly scheduled Interest Payment Date is defined as the 15<sup>th</sup> day of the month (whether or not a business day) preceding such Interest Payment Date.

## **Redemption Provisions**

### *Optional Redemption*

The District reserves the right, at its option, to redeem the Bonds maturing on and after May 1, 2024, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on May 1, 2023, 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. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See “THE BONDS – Book-Entry-Only System.” Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. 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 Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the 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.

### *Mandatory Redemption*

The Bonds that mature on May 1 in each of the years 2041 and 2043 (“Term Bonds”) are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on May 1 in each of the years set forth below (“Mandatory Redemption Date”), and in the amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption.

<b>\$785,000 Term Bonds Maturing on May 1, 2041</b>	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
May 1, 2040	\$385,000
May 1, 2041	\$400,000

<b>\$845,000 Term Bonds Maturing on May 1, 2043</b>	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
May 1, 2042	\$415,000
May 1, 2043	\$430,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for above, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Order. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

#### **Method of Payment of Principal and Interest**

The Board has appointed ZB, National Association, dba Amegy Bank, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See “THE BONDS – Book-Entry-Only System.”

#### **Registration**

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 Beneficial Owner’s 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 “THE BONDS – 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 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 a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

### **Mutilated, Lost, Stolen or Destroyed Bonds**

In the event the Book-Entry-Only System should be discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and the Paying Agent/Registrar of security or indemnity which they determine to be sufficient to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

The following is an excerpt from 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) also provides that bonds of the District (including the Bonds) are 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 or collateral purposes. No representation is made concerning other laws, rules, regulations, or investment criteria which 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's voters have authorized the District's issuance of a total of \$69,825,000 principal amount of unlimited tax bonds for the purpose constructing or acquiring the Utility System as well as \$118,450,000 principal amount of unlimited tax bonds for the purpose constructing or acquiring the Road System and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$59,865,000 of unlimited tax bonds authorized but unissued for the Utility System and \$108,685,000 of unlimited tax bonds authorized but unissued for the Road System. The District's voters have also authorized a total of \$282,412,500 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts.

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. Bonds issued for water, sewer, and drainage purposes are required to be approved by the TCEQ.

In the fourth quarter of 2018, the District anticipates that it will issue its third series of unlimited tax bonds, in the approximate principal amount of \$4,000,000, for the purpose of acquiring or constructing the Road System. Additionally, in the fourth quarter of 2018, the District anticipates the submission of a bond application to the TCEQ for approval to issue its third series of unlimited tax bonds for the purpose of constructing or acquiring the Utility System and, upon receiving approval from the TCEQ, the sale of such bonds in 2019. In connection with the application to the TCEQ, the District may issue a bond anticipation note to be redeemed by the 2019 bond issue.



The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election for approval of bonds for fire-fighting activities at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds. The Town, pursuant to the Public Improvements Agreement, will provide fire protection service within the boundaries of the District.

### **Remedies in the Event of Default**

If the District defaults in the payment of principal, interest, or 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, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for 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. Certain traditional legal remedies also may not be available. See “RISK FACTORS – Registered Owners’ Remedies.”

### **Defeasance**

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place or payment (paying agent) for obligations of the District payable from revenues or from ad valorem taxes or both, or a commercial bank or trust company designated in the proceedings authorizing such discharge amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, 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, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

### **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's 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance 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 the 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 required by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities 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](http://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 purchase 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 effect 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 Issue 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 the 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 redemption proceeds, principal and interest payments 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-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

*Use of Certain Terms in Other Sections of this Official Statement*

In reading this Official Statement it should be understood that while the Bonds are in the book-entry form, references in other sections of this Official Statement to registered owners should be read to include the person for which the DTC Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

**Short-Term Debt**

In connection with the Bonds, the District has issued its \$3,630,000 Bond Anticipation Note, Series 2017, dated December 7, 2017 (the "BAN"), and distributed proceeds from sale of the BAN as described below. The BAN accrues interest at a rate of 2.50% per year (computed on the basis of a 360-day year) and matures on December 8, 2018, unless called for redemption prior to maturity.

**Use and Distribution of Bond Proceeds**

Proceeds from the sale of the Bonds will be used by the District to redeem the BAN, the proceeds of which were used to reimburse the Developer for a portion of the amounts assigned to the construction costs set out below. Proceeds of the Bonds will also be used to reimburse the Developer for construction costs not reimbursed by the BAN and to pay those non-construction costs shown below.

<u>Construction Costs</u>	<u>District's Share</u>
A. Developer Contribution Items	
1. Union Park Phase 1 Utilities, Paving, Landscape, and Amenities	\$ 4,270,646
2. Union Park Phase 1 Mass Grading	184,338
3. Engineering	464,120
4. Union Park Phase 1 Easement Costs	<u>9,376</u>
Total Developer Contribution Items	\$ 4,928,480
B. District Items	
None	\$ 0
Total District Items	<u>\$ 0</u>
Total Construction Costs (72.48% of Bond Issue Requirement)	\$ 4,928,480

<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 176,000
B. Financial Advisor Fees	136,000
C. Interest	
1. Capitalized Interest (12 months)	262,175
2. Developer Interest	660,947
3. Bond Anticipation Note Interest	77,642
D. Bond Discount (3%)	204,000
E. TCEQ Bond Issuance Fee (0.25%)	17,000
F. Bond Anticipation Note Expenses	102,064
G. Bond Application Report Cost	50,000
H. Bond Issuance Expense	26,959
I. Developer Advanced District Costs	78,000
J. Attorney General Fee (0.10% or a maximum of \$9,500)	6,800
K. Contingency (a)	<u>73,933</u>
Total Non-Construction Costs	\$ 1,871,520

**TOTAL BOND ISSUE REQUIREMENT** **\$ 6,800,000**

The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor. The surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, limited, however, to the purposes for which the Bonds were issued.

The Engineer (herein defined) has advised the District that proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required.

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(a) Represents the difference between estimated and actual amounts for capitalized interest on the Bonds and interest on the BAN.

## THE DISTRICT

### General

The District is a special district created pursuant to Chapter 831 (S.B. 1878), Section 1, Acts of the 83rd Legislature, Regular Session, 2013, codified as Chapter 3920, Texas Special District Local Laws Code, as amended (the “District Act”) under the authority of Article III, Section 52, Article III, Section 52-a, and Article XVI, Section 59 of the Texas Constitution and operating under and governed by the provisions of the District Act and Chapter 375, Local Government Code, and Chapters 49 and 54, Texas Water Code, as amended. The District, which lies wholly within the corporate limits of the Town, is subject to the continuing supervisory jurisdiction of the TCEQ with respect to water, sewer, and drainage facilities.

The District is empowered, among other things, to purchase, construct, operate, and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District is also empowered to purchase, construct, operate and maintain certain road improvements, recreational facilities, and fire-fighting facilities, separately or jointly with one or more conservation and reclamation districts, municipalities or other political subdivisions, after approval by the Town and the voters of the District. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. See “THE BONDS – Issuance of Additional Debt.”

### Location of the District

The District is located approximately 32 miles northwest of the central downtown business district of the City of Dallas, Texas, and lies wholly within the corporate limits of the Town. The District is located within Denton Independent School District (“DISD”) and is bordered generally by farm land on the north, by FM 1385 on the east, by U.S. Highway 380 on the south, and by Navo Road on the west. Access to the District is provided by the Dallas North Tollway to U.S. Highway 380 and west to Union Park Boulevard.

At the time of creation, the District contained approximately 757 acres and after various annexations now contains approximately 1,085 acres.

### Management of the District

The District is governed by a board of directors (the “Board”), which consists of five directors and has control over, management, and supervision of all affairs of the District. All directors serve four-year staggered terms, and are appointed by the TCEQ:

Name	Position	Term Expires June
Philip Morgan	President	2023
Kyle Huckelberry	Vice President	2021
Douglas J. Peach	Secretary	2023
Danielle Androes	Assistant Secretary	2023
Teague Griffin	Assistant Secretary	2021

The District does not have any employees but contracts for certain necessary services as described below:

General Manager: The District has contracted with FirstService Residential to perform general management services for the District.

Tax Assessor/Collector: The District’s Tax Assessor/Collector is Michelle French, the Denton County Tax Assessor/Collector.

Bookkeeper: The District’s bookkeeper is L&S District Services, LLC.

Utility System Operator: The District’s operator is Mustang Special Utility District.

Auditor: The District engaged Roth & Eyring, PLLC to audit its financial statements for the fiscal year ended April 30, 2018. A copy of such audited financial statements is attached as “APPENDIX A.”

Engineer: The consulting engineer retained by the District in connection with the design and construction of the District’s facilities Kimley-Horn and Associates, Inc. (the “Engineer”).

Bond Counsel and General Counsel: Coats Rose, P.C. (“Bond Counsel”) serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Coats Rose, P.C. serves as general counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel: Orrick, Herrington & Sutcliffe LLP, Houston, Texas, serves as Disclosure Counsel to the District. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor: Robert W. Baird & Co. Incorporated serves as the District’s financial advisor (the “Financial Advisor”). The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold, and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement. See “PREPARATION OF OFFICIAL STATEMENT – Consultants.”

**General Fund Operating Statement**

The following statement sets forth in condensed form the historical results of operation of the Utility System. Such summary has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District’s audited financial statements for the year ended April 30, 2018. Reference is made to such statement for further and more complete information. See “APPENDIX A.”

	For Fiscal Year Ended April 30		
	2018	2017	2016
<u>Revenues</u>			
Property taxes	\$ 175,214	\$ 147,810	\$ 21,451
Rebate payments from the Town	1,071	86,696	20,386
Capital recovery fees	115,000	174,750	26,500
Penalty	0	63	0
Interest on deposits	659	11	0
Total Revenues	\$ 291,944	\$ 409,330	\$ 68,337
<u>Expenditures</u>			
Purchased services	\$ 8,544	\$ 16,348	\$ 698
Professional fees	44,688	90,658	42,414
Contracted services	29,487	20,628	16,131
Utilities	4,154	2,794	0
Repairs and maintenance	296,320	296,211	0
Administrative expenditures	14,922	16,072	9,444
Total Expenditures	\$ 398,115	\$ 442,711	\$ 68,687
Excess Revenues (Expenditures)	\$ (106,171)	\$ (33,381)	\$ (350)
Developer Advances	\$ 120,000	\$ 198,000	\$ 63,000
Net Change in Fund Balance	\$ 13,829	\$ 164,619	\$ 62,650

**UNION PARK**

The master-planned community of Union Park encompasses the District. Union Park is a 1085-acre master planned community, located in Little Elm, Texas along the US Highway 380 corridor. According to the Developer (hereinafter defined), there are approximately 3,200 single-family homes ultimately planned to be constructed within the Union Park community along with walking trails, a 35-acre central park, an amenity

center and food truck park. The District makes no representation as to the likelihood of such planned development occurring within the District.

### STATUS OF DEVELOPMENT

The District encompasses approximately 1,085 total acres of land. To date, approximately 246 acres have been developed as approximately 861 single-family lots in the residential subdivisions of Union Park, Phases 1A, 1B, 1C, 2A, 2B, 2C, 2D, and 3A-1. As of August 15, 2018, the District included approximately 400 completed homes (approximately 380 of which being occupied, 12 unoccupied, and 8 model homes), 121 homes under construction, and 340 vacant developed lots available for home construction. In addition, the following residential subdivisions are currently under construction: Union Park, Phase 3A-2, is being constructed on approximately 59 acres for development of 276 single-family lots that are scheduled for delivery in October of 2018; Union Park, Phase 4A, is being constructed on approximately 37 acres for development of 155 single-family lots that are scheduled for delivery in November of 2018; Del Webb at Union Park, Phase 1, is being constructed on approximately 114 acres for development of 288 single-family lots that are scheduled for delivery in September of 2018; and Del Webb at Union Park, Phase 2, is being constructed on approximately 62 acres for development of 321 single-family lots that are scheduled for delivery in September of 2019.

The remaining land in the District includes: approximately 440 acres planned for development as additional residential sections; approximately 33 acres for Union Park Boulevard; approximately 12 acres on which an elementary school will be constructed; and approximately 82 acres that are planned for development as multi-use and commercial properties.

The table below summarizes the development within the District as of August 15, 2018, by section.

Subdivision	Section Acreage (a)	Section Lots	Homes Completed	Homes Construction	Vacant Lots
Union Park, Phase 1A	55.44	207	202	4	1
Union Park, Phase 1B	49.52	175	136	21	18
Union Park, Phase 1C	25.96	11	8	0	3
Union Park, Phase 2A	22.52	104	54	34	16
Union Park, Phase 2B	36.37	143	0	33	110
Union Park, Phase 2C	18.60	59	0	4	55
Union Park, Phase 2D	31.75	149	0	25	124
Union Park, Phase 3A-1	<u>5.70</u>	<u>13</u>	<u>0</u>	<u>0</u>	<u>13</u>
Totals	245.86	861	400	121	340
Single-Family Developed	245.86				
Single-Family Under Development (b)	271.96				
Single-Family Remaining Developable (c)	439.83				
Union Park Boulevard	32.74				
Elementary School	12.11				
Multi-Use and Commercial	82.37				
District Total	1,084.87				

(a) Represents the total acreage shown on the plat of each developed subdivision, including acreage associated with residential lots, roads, detention ponds, open space, and parks and recreation.

(b) Represents the total approximate acreage of residential sections currently under development and includes acreage associated with residential lots as well as acreage reserved for roads, detention ponds, floodplain, open space, and parks and recreation.

(c) Represents the total approximate acreage of additional residential sections that are planned for development within the District. This total acreage includes approximately 125 acres reserved for roads, detention ponds, creeks, floodplain, open space, and parks and recreation.

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(May 2018)





PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(May 2018)



## THE DEVELOPERS

### The 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 Bond purchasers should note that the prior real estate experience of a developer should not be construed as an indication that further development within the District will occur, or 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.

None of the Developer, or any affiliate entities, is obligated to pay principal of or interest on the Bonds. Furthermore, none of the Developer or its affiliate entities has a binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by the Developer or its affiliate entities should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

### Description of the Developers

H4 Little Elm, L.P., a Texas limited partnership ("H4 Little Elm") was formed for the purpose of acquiring and holding for investment and sale tracts of land, including approximately 757 acres of land in the District by and through its affiliate entities such as Union Park Phase 1, LP, Union Park Phase 2, LP, Union Park Phase 2BCD, LP, and Union Park Phase 3A, LP. The partners of H4 Little Elm include: BOH Investments GP, LLC, a Texas limited liability company ("GP"), and BOH Subpartnership, L.P., a Delaware limited partnership ("LP"). GP is the general partner of H4 Little Elm. UPH4 McCutchin, L.P., a Texas limited partnership ("UPH4") and affiliate of H4 Little Elm, was also formed for the purpose of acquiring and holding certain lands within the District for investment and sale by and through its affiliate entities. UPH4 has acquired approximately 328 acres of land within the District for such purposes. The partners of UPH4 include: GP and UP Project, LLC. GP is the general partner of UPH4. H4 Little Elm and UPH4 have determined the overall development plan for such land in the District and arranged for financing the construction of water, sanitary sewer, drainage and road facilities within the District either directly or through affiliate entities. Throughout this Official Statement, H4 Little Elm and UPH4 and their affiliate entities described herein are referred to collectively as the "Developer."

The Developer is controlled and managed by Hillwood Residential Services L.P., a Perot Company, a Dallas company owned by H. Ross Perot, Jr., having over 30 years of experience developing land in Texas. Hillwood Residential Services L.P. is an affiliate of Hillwood Development Company, LLC, which is a national real estate development company with development expertise and experience that encompasses diverse product types, including high-rise condominiums, offices, single-family residential communities, distribution centers, regional malls, mixed-use urban development, call centers, hotels, golf courses, airports, intermodal rail yards, corporate campuses and major air facilities.

Within the District, the Developer and its affiliate entities described herein currently own: approximately 96 acres that are under construction for the development of residential sections, approximately 554 undeveloped but developable acres, and approximately 187 vacant developed lots within the District.

In December of 2016, the Developer sold approximately 114 acres of developable land within the District to Pulte Homes of Texas, L.P. Such acreage is currently under construction for development of 288 lots in the residential subdivision of Del Webb at Union Park Phase 1. In September of 2018, the Developer sold approximately 64 additional acres of developable land within the District to Pulte Homes of Texas, L.P. Such acreage is currently under development for 321 residential lots as the subdivision of Del Webb at Union Park Phase 2. Pulte Homes of Texas, L.P. is a subsidiary of PulteGroup, Inc., which is a publicly traded company on the New York Stock Exchange and a national homebuilder. Pulte Homes of Texas, L.P. is actively developing lots and building homes in Dallas-Fort Worth, San Antonio, Austin and Houston. For more information, visit [www.pultegroupinc.com](http://www.pultegroupinc.com). See “STATUS OF DEVELOPMENT” and “TAX DATA – Principal Taxpayers.”

Pulte Homes of Texas, L.P. plans to develop a 600-home senior living community within in the District known as Del Webb at Union Park. The first phase of lots within this community will be delivered for home construction in September of 2018.

**Development Financing**

The Developer has financed the development of a portion of the land within the District with the outstanding loan detailed below:

The Developer financed the development of Union Park, Phase 2BCD with a loan from Texas Capital Bank, N.A., dated November 4, 2016, in the original amount of \$22,741,964 with a variable interest rate equal to the greater of 4.00% or the London Interbank Offered Rate plus 3.50%. Such loan matures on November 4, 2019, and is secured by the land within Union Park, Phase 2BCD and the reimbursements the Developer expects to receive from bond proceeds from the bond sales of the District. As of August 31, 2018, the balance on such loan was \$12,645,538. According to the Developer, it is in compliance with all material terms of such loan.

In addition, the Developer financed the development of Union Park, Phases 3A and 4A, with a loan from Texas Capital Bank, N.A., dated December 13, 2017, in the original amount of \$25,363,142 with a variable interest rate equal to the London Interbank Offered Rate plus 3.50%. Such loan matures on December 13, 2020, and is secured by the land within Union Park, Phases 3A and 4A, and the reimbursements the Developer expects to receive from bond proceeds from the bond sales of the District. As of August 31, 2018, the balance on such loan was \$7,134,901. According to the Developer, it is in compliance with all material terms of such loan.

**Lot Sales Contracts**

For the lots developed within Union Park, Phases 1A, 1B, 1C, 2A, 2B, 2C, and 2D, the Developer, through its subsidiary entities, has entered into lot sales contracts with each of American Legend Homes, Drees Custom Homes, DR Horton doing business as Emerald Homes, Highland Homes, and MHI Builders doing business as Plantation Homes. The contracts for the sale of lots between the Developer and the builders require that earnest money be deposited with a title company, typically 15% of the total price of the completed lots. The sales contracts establish certain required lot purchases quarterly, with the earnest money deposit being returned to the builders upon purchase of the last lots under each contract. The Developer’s sole remedy for builders not purchasing lots in accordance with the contracts is cancellation of the contract and retention of the remaining earnest money on deposit, currently, approximately \$6,408,678.

According to the Developer, each of the builders is in compliance with their respective lot sale contracts. As of August 31, 2018, the total number of lots contracted and purchased by each builder is listed below:

Homebuilder	Total Lots Contracted	Total Lots Purchased
American Legend Homes	275	231
Drees Custom Homes	94	59
Emerald Homes	98	98
Highland Homes	206	157
Plantation Homes	<u>157</u>	<u>128</u>
Totals	830	673

## **HOMEBUILDERS WITHIN THE DISTRICT**

Builders currently building homes within the District include American Legend Homes, Drees Custom Homes, DR Horton doing business as Emerald Homes, Highland Homes, and MHI Builders doing business as Plantation Homes. The homes being marketed in the District range in size from 1,800 to over 4,200 square feet and in price from approximately \$280,000 to \$525,000. Homebuilding in the District began in late 2015. In 2016, approximately 181 homes were constructed within the District, and from January 2017 through July of 2018, approximately 214 homes were constructed.

### **THE ROAD SYSTEM**

The District's Road System has been funded with proceeds of the Outstanding Bonds issued for the Road System and will continue to be funded from proceeds of future bonds issued by the District for acquiring or constructing the Road System. See "RISK FACTORS - Future Debt" and "THE BONDS - Issuance of Additional Debt." Construction of the District's roads is subject to certain regulations by the Town and the Texas Department of Transportation. The roads in the District are constructed with reinforced concrete pavement with curbs on cement or lime-stabilized subgrade. Remaining streets provide local interior service within the District. The District's road facilities will, upon completion, be conveyed to the Town and will be maintained by the Town. The Road System also includes streetlights, landscape, and irrigation. Public utilities such as water, wastewater, and storm drainage are typically located within street rights-of-way.

### **THE UTILITY SYSTEM**

#### **Regulation**

According to the Engineer, the Utility System has been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, Denton County, Texas, the Town, and Mustang Special Utility District. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies and inspected by the TCEQ.

#### **Description of the Utility System**

##### *Water Supply*

The area within the District lies wholly within the water certificate of convenience and necessity number 11856 held by Mustang Special Utility District ("Mustang"). Mustang is the provider of retail water service to the users within the District.

On September 11, 2014, the District entered into a water supply and wastewater treatment service contract with Mustang (the "Contract") to provide capacity for 1,530 equivalent single-family connections ("esfcs"). Under the terms of the Contract, the District will construct, or have constructed, a water production or distribution system and a wastewater collection system. Upon completion of such systems, the systems will be conveyed to Mustang. In consideration of the District's construction and conveying such systems, Mustang shall assume all operation and maintenance responsibilities for the water and wastewater systems.

Mustang has entered into an agreement with the Upper Trinity Regional Water District (the "UTRWD") pursuant to which Mustang receives wholesale treated surface water from the UTRWD. Such water is delivered to the District at a point of delivery as described in the Contract between the District and Mustang. Mustang owns sufficient water capacity through its agreement with the UTRWD to provide 1,530 esfcs, as referenced above, which is more than sufficient to serve the development of Union Park, Phases 1 and 2A.

##### *Wastewater Treatment*

The area within the District lies wholly within the sewer certificate of convenience and necessity number 20930 held by Mustang. Mustang is the provider of retail wastewater service to the users within the District.

As noted above, under the terms of the Contract entered into by and between the District and Mustang, the District will construct, or have constructed, a water production or distribution system and a wastewater collection system. Upon completion of such systems, the systems will be conveyed to Mustang. In consideration of the District's construction and conveying such systems, Mustang shall assume all operation and maintenance responsibilities for the water and wastewater systems.

Mustang, under the terms of its agreement with the UTRWD, is made a participant in the Riverbend Wastewater Treatment Plant, which is operated and maintained by the UTRWD. As referenced above, Mustang owns sufficient wastewater treatment capacity through its agreement with the UTRWD to provide 1,530 esfcs, which is more than sufficient to serve the development of Union Park, Phases 1 and 2A.

*Drainage*

The District generally drains to the west to tributaries of Lewisville Lake located on the Elm Fork of the Trinity River. According to the District's Engineer, none of the developable land within the District is within the FEMA 100-year flood plain. The drainage infrastructure within the District will, upon completion, be conveyed to the Town and will be maintained by the Town.

*[Remainder of Page Intentionally Left Blank]*

**DISTRICT DEBT**

**General**

2018 Taxable Assessed Valuation.....	\$ 161,807,965 (a)
Estimated Valuation as of June 15, 2018 .....	\$ 205,500,000 (b)
Direct Debt:	
The Outstanding Bonds.....	\$ 12,925,000
The Bonds .....	<u>\$ 6,800,000</u>
Total.....	\$ 19,725,000
Estimated Overlapping Debt .....	<u>\$ 17,398,642 (c)</u>
Total Direct and Estimated Overlapping Debt .....	\$ 37,123,642 (c)
Direct Debt Ratio:	
As a percentage of the 2018 Taxable Assessed Valuation.....	12.19 %
As a percentage of the Estimate of Value as of June 15, 2018 .....	9.60 %
Direct and Estimated Overlapping Debt Ratio:	
As a percentage of the 2018 Taxable Assessed Valuation.....	22.94 %
As a percentage of the Estimate of Value as of June 15, 2018 .....	18.07 %
Utility System Debt Service Fund Balance (as of August 2, 2018) .....	\$239,142 (d)
Road System Debt Service Fund Balance (as of August 2, 2018).....	\$444,246 (e)
General Operating Fund Balance (as of August 2, 2018).....	\$111,392

- 
- (a) Certified taxable assessed value of all taxable property within the District as of January 1, 2018, provided by the Denton Central Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
  - (b) Provided by the Denton Central Appraisal District for informational purposes only, this amount is an estimate of the taxable value of all taxable property located within the District as of June 15, 2018, and includes an estimate of additional taxable value resulting from additional of taxable improvements constructed in the District from January 1, 2018, through June 15, 2018. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
  - (c) See "DISTRICT DEBT - Estimated Overlapping Debt Statement."
  - (d) In addition, upon closing of the Bonds, twelve (12) months of capitalized interest on the Bonds as well as accrued interest will be deposited into this fund. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Road System.
  - (e) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Road System Debt Service Fund. Funds in the Road System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Utility System (e.g., the Bonds).

2018 Tax Rates	
Utility System Debt Service .....	\$0.150 (a)
Road System Debt Service .....	\$0.140 (a)
Maintenance & Operation .....	<u>\$0.225</u>
Total.....	\$0.515
Average Annual Debt Service Requirement (2019–2043) .....	\$1,188,849 (b)
Maximum Annual Debt Service Requirement (2041).....	\$1,258,922 (b)
Combined Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Requirement (2019–2043) at 95% Tax Collections:	
Based on the 2018 Taxable Assessed Valuation.....	\$0.78 (c)
Based on the Estimate of Value as of June 15, 2018.....	\$0.61 (c)
Combined Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Requirement (2041) at 95% Tax Collections:	
Based on the 2018 Taxable Assessed Valuation.....	\$0.82 (c)
Based on the Estimate of Value as of June 15, 2018.....	\$0.65 (c)
Number of Single-Family Homes.....	521 (d)

- 
- (a) The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Utility System and for payment of debt service on bonds issued for the Road System; both such taxes are unlimited as to rate or amount. See "TAX DATA – Tax Rate Calculations" and "RISK FACTORS – Future Debt."
- (b) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."
- (c) The District anticipates that a portion of the debt service on the Bonds will be paid with the Rebate pursuant to the Public Improvements Agreement. Based on the Town's 2018 tax rate of \$0.649900 per \$100 of assessed valuation with a 46% rebate, the District expects to receive a Rebate of approximately \$0.30 per \$100 of assessed valuation that is expected to be used to pay debt service on the Bonds. If such revenues from the Rebate are ever insufficient to make such payments, the District is obligated to levy a debt service tax in an amount sufficient to make such payments. See "THE BONDS – Public Improvements Agreement."
- (d) Approximate number of homes, including 121 under construction, within the District as of August 15, 2018.

**Estimated Overlapping Debt Statement**

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdictions and/or *Texas Municipal Reports* prepared by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

Taxing Jurisdiction	Outstanding Debt August 31, 2018	Overlapping	
		Percent	Amount
Denton County	\$612,630,000	0.18%	\$1,109,392
Denton Independent School District	1,167,039,104	0.98	11,405,487
Town of Little Elm	101,930,000	4.79	<u>4,883,763</u>
Total Estimated Overlapping Debt			\$17,398,642
Direct Debt (a)			<u>\$19,725,000</u>
Total Direct and Estimated Overlapping Debt (a)			\$37,123,642

(a) Includes the Bonds.

**Debt Ratios**

Direct Debt Ratio:

As a percentage of the 2018 Taxable Assessed Valuation.....	12.19 %
As a percentage of the Estimate of Value as of June 15, 2018 .....	9.60 %

Direct and Estimated Overlapping Debt Ratio:

As a percentage of the 2018 Taxable Assessed Valuation.....	22.94 %
As a percentage of the Estimate of Value as of June 15, 2018 .....	18.07 %

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### Debt Service Requirements

The following schedule sets forth the annual debt service requirements of the Outstanding Bonds as well as the principal and interest requirements of the Bonds.

Calendar Year	Outstanding Debt Service	Plus: The Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2019	\$767,385	-	\$284,023	\$284,023	\$1,051,408
2020	763,710	\$175,000	257,363	432,363	1,196,073
2021	770,550	180,000	247,600	427,600	1,198,150
2022	782,130	185,000	237,563	422,563	1,204,693
2023	777,515	195,000	227,113	422,113	1,199,628
2024	782,160	200,000	216,250	416,250	1,198,410
2025	790,778	210,000	204,975	414,975	1,205,753
2026	798,095	220,000	193,975	413,975	1,212,070
2027	794,540	230,000	185,300	415,300	1,209,840
2028	800,342	235,000	178,325	413,325	1,213,667
2029	805,286	245,000	171,125	416,125	1,221,411
2030	809,209	255,000	163,625	418,625	1,227,834
2031	807,056	265,000	155,659	420,659	1,227,716
2032	808,791	280,000	146,969	426,969	1,235,759
2033	814,366	290,000	137,525	427,525	1,241,891
2034	813,978	300,000	127,381	427,381	1,241,359
2035	812,697	315,000	116,619	431,619	1,244,316
2036	810,319	325,000	105,419	430,419	1,240,738
2037	811,844	340,000	93,569	433,569	1,245,413
2038	817,156	355,000	80,972	435,972	1,253,128
2039	815,906	370,000	67,831	437,831	1,253,738
2040	813,388	385,000	53,906	438,906	1,252,294
2041	819,734	400,000	39,188	439,188	1,258,922
2042	810,038	415,000	23,906	438,906	1,248,944
2043	-	430,000	8,063	438,063	438,063
<b>Total</b>	<b>\$19,196,971</b>	<b>\$6,800,000</b>	<b>\$3,724,242</b>	<b>\$10,524,242</b>	<b>\$29,721,213</b>

Average Annual Debt Service Requirement (2019–2043) .....\$1,188,849

Maximum Annual Debt Service Requirement (2041).....\$1,258,922

## **TAXING PROCEDURES**

### **Property Tax Code and County-Wide Appraisal District**

The Texas 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 Denton Central Appraisal District ("DCAD") has the responsibility for appraising property for all taxing units wholly within Denton County, including the District. Such appraisal values are subject to review and change by the Denton 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 DCAD 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 Denton County, to participate in the nomination of and vote for a member of the Board of Directors of DCAD.

### **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 are 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 residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. 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. For the 2018 tax year, the District has not granted any such exemptions.

The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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. Also, 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, merchandise, other tangible personal property and ores, other than oil, natural 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 certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it 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. 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has not exercised its option to tax goods-in-transit personal property but may choose to do so in the future. Currently, the District has no intention of taxing goods-in-transit personal property.

### **General Residential Homestead Exemptions**

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised 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. For the 2017 tax year, the District has not granted a general residential homestead exemption.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by DCAD 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 to 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 DCAD to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by DCAD at least once every three (3) years. It is not

known what frequency of reappraisal will be utilized by DCAD 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 DCAD 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.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also 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.

### **Agricultural, Open Space, Timberland and Inventory 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 would 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. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. 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 for the three (3) to five (5) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2018, approximately 171 acres within the District were designated for agricultural use, open space, or timberland.

### **Tax Abatement**

The Town, Denton County, or the District may designate all or part of the District as a reinvestment zone, and the District, Denton County, and the Town 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/or by the District, for a period of up to ten (10) 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. According to the District's Tax Assessor/Collector, 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 collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by DCAD. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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.

However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including DCAD, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is a person sixty-five (65) years of age or older or under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. 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 "TAX DATA – Estimated Overlapping Taxes." 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.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, 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. 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 may redeem 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 “RISK FACTORS – Tax Collections and Foreclosure Remedies.”

## 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. In 2018, the District levied a total tax rate of \$0.515 per \$100 of assessed valuation composed of a maintenance tax rate of \$0.225, a utility debt service tax rate of \$0.150, and a road debt service tax rate of \$0.140. See “Tax Rate Distribution” below, “TAXING PROCEDURES,” and “RISK FACTORS.”

### 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. Maintenance tax elections were held on May 9, 2015, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.20 per \$100 assessed valuation for general operations and maintenance costs. The District levied a \$0.225 operation and maintenance tax rate for the 2018 tax year. See “Tax Rate Distribution” below.

### Historical Tax Collections

The following table illustrates the collection history of the District for the 2015–2018 tax years:

Tax Year	Certified Taxable Value	Tax Rate (a)	Adjusted Tax Levy	Collections Current Year	Current Year Ending 9/30	Collections 06/30/18
2015	\$ 4,247,785	\$0.505	\$ 21,451	100.00%	2016	100.00%
2016	29,609,710	0.505	149,529	99.02	2017	100.00
2017	96,625,684	0.510	492,791	100.00(b)	2018	100.00
2018	161,807,965	0.515	833,311	(c)	2019	(c)

(a) See “– Tax Rate Distribution” below.

(b) Collections through June 30, 2018.

(c) On September 13, 2018, the Board adopted an order for the District’s tax levy for the 2018 tax year.

### Tax Rate Distribution

	2018	2017	2016	2015
Road System Debt Service	\$0.1400	\$0.2500	\$0.0000	\$0.0000
Utility System Debt Service	0.1500	0.0800	0.0000	0.0000
Maintenance	<u>0.2250</u>	<u>0.1800</u>	<u>0.5050</u>	<u>0.5050</u>
Total	\$0.5150	\$0.5100	\$0.5050	\$0.5050

### Analysis of Tax Base

The following table illustrates the District’s total taxable assessed value in the 2015–2018 tax years by type of property.

Type of Property	2018 Assessed Valuation	2017 Assessed Valuation	2016 Assessed Valuation	2015 Assessed Valuation
Land	\$81,315,023	\$69,469,698	\$38,992,904	\$19,058,798
Improvements	95,531,385	55,230,076	4,980,400	23,264
Personal Property	98,040	131,685	119,471	0
Exemptions	<u>(15,136,483)</u>	<u>(28,205,775)</u>	<u>(14,483,065)</u>	<u>(14,834,277)</u>
Total	\$161,807,965	\$96,625,684	\$29,609,710	\$4,247,785

**Exemptions**

To date, the District has not granted any residential homestead exemptions, including exemptions for persons 65 years of age or older or certain disabled persons. According to DCAD, as of January 1, 2018, approximately 171 acres of land within the District was designated for agricultural use, open space or timberland. The majority of such land is owned by the Developer or its affiliate entities. The market value of the land according to DCAD as of January 1, 2018, is \$9,706,402.

**Principal Taxpayers**

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2018, from original certification of the 2018 tax rolls by DCAD:

Taxpayer	Type of Property	Assessed Valuation 2018 Tax Roll	Percent of 2018 Tax Roll
Union Park Phase 2BCD LP (a)	Land & Improvements	\$10,691,950	6.608%
American Legend Homes LLC (b)	Land & Improvements	7,663,061	4.736%
Pulte Homes of Texas LP (a)	Land & Improvements	4,226,851	2.612%
Union Park Phase 3A LP (a)	Land & Improvements	4,137,285	2.557%
MHI Partnership LTD (b)	Land & Improvements	3,299,742	2.039%
Highland Homes Dallas LLC (b)	Land & Improvements	3,259,652	2.015%
D R Horton TX LTD (b)	Land & Improvements	3,057,756	1.890%
Drees Custom Homes LP (b)	Land & Improvements	2,169,313	1.341%
Highland Homes Dallas LLC (b)	Land & Improvements	1,311,706	0.811%
Union Park Phase 1 LP (a)	Land & Improvements	615,723	0.381%
<b>Total</b>		<b>\$40,33,039</b>	<b>24.998%</b>

(a) See "THE DEVELOPERS" herein. See "- Exemptions" above.

(b) See "HOMEBUILDERS WITHIN THE DISTRICT."

**Tax Rate Calculations**

The tax rate calculations set forth below are presented to indicate the combined debt service tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements on the Outstanding Bonds and the Bonds if no growth in the District's tax base occurs beyond the taxable assessed valuation as of January 1, 2018 (\$161,807,965), or the estimate of value as of June 15, 2018 (\$205,500,000). The calculations assume collection of 95% of taxes levied, the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirement (2019–2043) .....	\$1,188,849
Combined Debt Service Tax Rate of \$0.78 on the 2018 Taxable Assessed Valuation produces .....	\$1,198,997
Combined Debt Service Tax Rate of \$0.61 on the Estimate of Value as of June 15, 2018, produces .....	\$1,190,873
Maximum Annual Debt Service Requirement (2041) .....	\$1,258,922
Combined Debt Service Tax Rate of \$0.82 on the 2018 Taxable Assessed Valuation produces .....	\$1,260,484
Combined Debt Service Tax Rate of \$0.65 on the Estimate of Value as of June 15, 2018, produces .....	\$1,268,963

The District anticipates that a portion of the debt service on the Bonds will be paid with the Rebate pursuant to the Public Improvements Agreement. Based on the Town's 2018 tax rate of \$0.649900 per \$100 of assessed valuation with a 46% rebate, the District expects to receive a Rebate of approximately \$0.30 per \$100 of assessed valuation that is expected to be used to pay debt service on the Bonds. If such revenues from the Rebate are ever insufficient to make such payments, the District is obligated to levy a debt service tax in an amount sufficient to make such payments. See "THE BONDS – Public Improvements Agreement."

**Estimated Overlapping Taxes**

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on

bonded debt of the District and of such other jurisdictions (see “DISTRICT DEBT – Estimated Overlapping Debt Statement”), certain taxing jurisdictions are 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 a compilation of all 2018 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

	2018 Tax Rate Per \$100 of Assessed Value
The District	\$0.515000
Denton County	\$0.225574
Denton Independent School District	\$1.540000
Town of Little Elm	\$0.649900
Total Estimated Tax Rate	\$2.930474

## LEGAL MATTERS

### Legal Opinions

The District will furnish to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal 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, without legal limitation as to rate or amount, levied 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 and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See “Tax Exemption” below. 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. Bond Counsel’s opinion will also address the matters described below.

In addition to serving as Bond Counsel, Coats Rose, P.C., also serves as counsel to the District on matters not related to the issuance of bonds. 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. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as Disclosure Counsel.

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” (except for information under the subsections “– Book-



Entry-Only System” and “– Use and Distribution of Bond Proceeds,”), “THE DISTRICT – General” and “– Management of the District – Bond Counsel and General Counsel,” “TAXING PROCEDURES,” and “LEGAL MATTERS” solely to determine whether such information fairly summarizes the law and documents referred to 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 firm’s 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 Exemption**

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing 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, as amended (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt of, interest on, or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon, and assume continuing compliance with, (a) certain information and representations of the District, including information and representations contained in the District’s federal tax certificate issued in connection with the Bonds, and (b) covenants of the District contained in the Bond Order relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. 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.

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. Existing Law, upon which Bond Counsel has based its opinion, is subject to change by Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

### **Not Qualified Tax-Exempt Obligations**

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 has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code.

## **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 Law which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, 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 individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC 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.

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.

### **Tax Accounting Treatment of Original Issue Discount and Premium Bonds**

The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds is not equal to the accrued period or be in excess of one year (the "Original Issue Discount Bonds"). 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 constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. 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 period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, such initial 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 that such Original Issue Discount Bond continues to be owned by such owner. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

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 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 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 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.

The initial public offering price to be paid for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

#### **NO MATERIAL ADVERSE CHANGE**

The obligations of the Initial Purchaser to take and pay for the Bonds, and of 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 financial condition 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 sale.

#### **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 Initial Purchaser 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.

## **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 Tax Assessor/Collector, DCAD 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. 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.

### **Consultants**

In approving this Official Statement the District has relied upon the following consultants:

*Tax Assessor/Collector:* 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 Denton Central Appraisal District and is included herein in reliance upon the authority of such firm 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 Water, Sewer and Drainage System and, in particular that information included in the sections entitled "THE DISTRICT," "STATUS OF DEVELOPMENT," "THE UTILITY SYSTEM" and "THE ROAD SYSTEM," has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

### **Updating of Official Statement**

For the period beginning on the date of the award of the sale of the Bonds to the Initial Purchaser and ending on the ninety-first (91st) day after the "end of the underwriting period" (as defined in Rule 15c2-12(f)(2) of the SEC), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Initial Purchaser of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this Official Statement thereafter.

### **Certification as to Official Statement**

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, descriptions and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

## CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system which is available at [www.emma.msrb.org](http://www.emma.msrb.org).

### Annual Reports

The District will provide certain updated financial information and operating data via EMMA annually. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "DISTRICT DEBT" (except under the subheading "Estimated Overlapping Debt Statement"), "TAX DATA," and "APPENDIX A." The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information via EMMA.

The financial information and operating data which will be provided with respect to the District is found in the "APPENDIX A." The District will update and provide this information via EMMA within six months after the end of each fiscal year. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period, and audited financial statements when the audit report becomes available.

The District's current fiscal year end is April 30. Accordingly, it must provide updated information by October 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### Material 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 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-exempt status of the Bonds, or other events affecting the tax-exempt 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 or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a 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. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information**

The District has agreed to provide the foregoing notices to the MSRB. The District is required to file its continuing disclosure information using EMMA, which is the format currently prescribed by the MSRB and has been established by the MSRB to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of material 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 Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The Developer has agreed to provide to the District the information that the District has agreed to provide with respect to the Developer. The Developer has also agreed with the District that it will not assign any of its rights to receive payment from the District out of proceeds of the Bonds (except as collateral), unless the assignee assumes the Developer's agreement to provide such information, but the Developer may sell its property within the District without any such assumption. The District's ability to provide information about the Developer or others, as well as the accuracy and completeness of such information, is completely dependent on such persons' compliance with their contractual agreements with the District.

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 or the Developer, 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 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 Initial Purchaser 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 reasons 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 is in compliance in all material respects with its previous undertakings pursuant to SEC Rule 15c2-12.

### **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 Highway 380 Municipal Management District No. 1 as of the date shown on the cover page hereof.

/s/ Philip Morgan  
President, Board of Directors  
Highway 380 Municipal Management District No. 1

ATTEST:

/s/ Douglas Peach  
Secretary, Board of Directors  
Highway 380 Municipal Management District No. 1

**APPENDIX A**  
**Audited Financial Statements of the District**



HIGHWAY 380  
MUNICIPAL MANAGEMENT DISTRICT NO. 1  
DENTON COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
APRIL 30, 2018

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# Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

August 2, 2018

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Highway 380 Municipal  
Management District No. 1  
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Highway 380 Municipal Management District No. 1, as of and for the year ended April 30, 2018, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 of material misstatement.

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

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

### **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 fund of Highway 380 Municipal Management District No. 1 as of April 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Emphasis of Matters**

As discussed in Note 6 of the Notes to the Financial Statements, the District's tax base is concentrated in a small number of taxpayers, including the District's developer. Our opinions are not modified with respect to these matters.

**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 21 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 22 to 37 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

*Wolfe & Cozine, PLLC*

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Highway 380 Municipal Management District No. 1 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended April 30, 2018.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of sewer, drainage and road services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### *Government-Wide Financial Statements*

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

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

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

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

#### *Fund Financial Statements*

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

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

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

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

### **Financial Analysis of the District as a Whole**

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

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

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

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

Summary of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current and other assets	\$ 1,242,991	\$ 501,608	\$ 741,383
Capital assets	18,514,148	23,301,132	(4,786,984)
Total assets	<u>19,757,139</u>	<u>23,802,740</u>	<u>(4,045,601)</u>
Long-term liabilities	31,005,247	29,794,429	1,210,818
Other liabilities	4,002,308	1,800,880	2,201,428
Total liabilities	<u>35,007,555</u>	<u>31,595,309</u>	<u>3,412,246</u>
Net position:			
Invested in capital assets, net of related debt	(16,106,931)	(7,913,965)	(8,192,966)
Restricted	854,425	159,903	694,522
Unrestricted	2,090	(38,507)	40,597
Total net position	<u>\$ (15,250,416)</u>	<u>\$ (7,792,569)</u>	<u>\$ (7,457,847)</u>

Summary of Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 508,668	\$ 149,699	\$ 358,969
Payments from Town of Little Elm	284,834	86,696	198,138
Capital recovery fees	115,000	174,750	(59,750)
Other revenues	2,632	503	2,129
Total revenues	<u>911,134</u>	<u>411,648</u>	<u>499,486</u>
Expenses:			
Service operations	7,543,793	7,518,168	25,625
Debt service	825,188	594,847	230,341
Total expenses	<u>8,368,981</u>	<u>8,113,015</u>	<u>255,966</u>
Change in net position	(7,457,847)	(7,701,367)	243,520
Net position, beginning of year	<u>(7,792,569)</u>	<u>(91,202)</u>	<u>(7,701,367)</u>
Net position, end of year	<u>\$ (15,250,416)</u>	<u>\$ (7,792,569)</u>	<u>\$ (7,457,847)</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended April 30, 2018, were \$1,176,575, an increase of \$701,002 from the prior year.

The General Fund balance increased by \$13,829, in accordance with the District's financial plan.

The Debt Service Fund balance increased by \$488,958, in accordance with the District's financial plan.

The Capital Projects Fund balance increased by \$198,215, as proceeds from the Series 2017 Utility Bonds, the Series 2017 Road Bonds and Series 2017 Bond Anticipation Note exceeded authorized expenditures.

#### *General Fund Budgetary Highlights*

The Board of Directors did not amend the budget during the fiscal year. There were several significant differences between the budgetary amounts and the actual amounts. A detailed comparison of budgeted and actual revenues and expenditures is presented on Page 20 of this report. The budgetary fund balance as of April 30, 2018, was expected to be \$216,225 and the actual end of year fund balance was \$226,246.

### **Capital Asset and Debt Administration**

#### *Capital Assets*

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Construction in progress	\$ 18,504,238	\$ 23,301,132	\$ (4,796,894)
Easements	9,910	0	9,910
Totals	<u>\$ 18,514,148</u>	<u>\$ 23,301,132</u>	<u>\$ (4,786,984)</u>

Changes to capital assets during the fiscal year ended April 30, 2018, are summarized as follows:

Additions:		
Utilities and roads constructed by developer	\$ 2,269,050	
Easements	<u>9,910</u>	
Total additions to capital assets	2,278,960	
Decreases:		
Transfer of assets to other entities	<u>(7,065,944)</u>	
Net change to capital assets	<u>\$ (4,786,984)</u>	

#### *Debt*

Changes in the bonded debt position of the District during the fiscal year ended April 30, 2018, are summarized as follows:

Bonded debt payable, beginning of year	\$ 6,415,000
Utility bonds sold	3,160,000
Road bonds sold	3,350,000
Bonds paid	<u>0</u>
Bonded debt payable, end of year	<u>\$ 12,925,000</u>

At April 30, 2018, the District had \$108,685,000 unlimited tax bonds authorized but unissued for road purposes and \$66,665,000 authorized but unissued for water, sanitary sewer and drainage purposes.

The District's bonds are not rated.

The District issued its Series 2017 Bond Anticipation Note in the amount of \$3,630,000 on December 7, 2017. The Note bears interest at a rate of 2.50% per annum and is due and payable on December 6, 2018.



As further described in Note 5 of the notes to the financial statements, the developer within the District has advanced funds to the District to cover initial operating deficits. As of April 30, 2018, the cumulative amount of developer advances for this purpose was \$240,000.

As further described in Note 5 of the notes to the financial statements, the developer within the District is constructing roads and water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Texas Commission on Environmental Quality. At April 30, 2018, the estimated amount due to the developer was \$18,504,238.

## **ADDITIONAL RELEVANT FACTORS**

### *Property Tax Base*

The District's tax base increased approximately \$66,995,000 for the 2017 tax year (approximately 225%) due to the addition of new homes within the District.

The District's tax base is concentrated in a small number of taxpayers. The District's developer owns a substantial portion of land within the District. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet the debt service obligations described in Note 5 of the Notes to the Financial Statements.

### *Relationship to the Town of Little Elm*

The District lies wholly within the corporate boundaries of the Town of Little Elm (the "Town"). Effective October 15, 2013, the District entered into a Public Improvements Agreement and Chapter 380 Economic Development Agreement (the "Agreement") with the Town of Little Elm and the developer. In consideration of the District's acquiring and constructing road and utility systems on behalf of the Town, the Town agrees, pursuant to the terms and conditions of the Agreement, to own, operate and maintain the road and drainage systems. In addition, the Town shall rebate 46% of the ad valorem taxes imposed and collected by the Town on land and improvements located within the District back to the District. Under the terms of the Agreement, the rebate will be used by the District to pay for the design and construction of roads, utilities, recreational facilities and firefighting facilities or to pay debt service on bonds issued by the District for such purposes. If such rebate is insufficient to make debt service payments, the District is obligated to levy a debt service tax in an amount sufficient to make such payments. The Town will pay the rebate to the District on February 28<sup>th</sup> of the year following the year in which the taxes were levied and every 90 days thereafter until the full rebate for that tax year has been paid. The Town shall withhold 2% of the rebate for each tax year, after deducting the cost of tax collection, to be deposited into a sinking fund. All funds remaining in the sinking fund at the conclusion of the Agreement shall be paid the District with the final rebate payment. In addition to the rebate, the Town shall collect a capital recovery fee of \$2,500 for each permitted single family home. The Town shall retain a portion of each capital recovery fee collected by the Town on the first 1,500 single family homes as follows: \$1,250 per home on the first 500 single family homes, \$1,000 per home on the next 500 single family homes and \$750 per home on the next 500 single family homes.

The Town waived its right to dissolve the District until such time as (1) all of the water facilities, wastewater facilities, drainage facilities, roads and improvements necessary to serve the full development of the district have been constructed and (2) the District has issued bonds to reimburse all of the costs of such improvements.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

APRIL 30, 2018

	General	Debt Service	Capital Projects	Total	Adjustments (Note 3)	Statement of Net Position
<b>ASSETS</b>						
Cash, including interest-bearing accounts, Note 7	\$ 205,860	\$ 447,411	\$ 261,830	\$ 915,101	\$	\$ 915,101
Certificates of deposit, at cost, Note 7		235,000		235,000		235,000
Receivables:						
Property taxes	15,844	791		16,635		16,635
Accrued interest		328		328		328
Due from Town of Little Elm, Note 9		13,012		13,012		13,012
Due from other fund	6,790			6,790	(6,790)	0
Prepaid expenditures	11,761			11,761		11,761
Prepaid bond expenditures	51,154			51,154		51,154
Capital assets not being depreciated, Note 4				0	18,514,148	18,514,148
<b>Total assets</b>	<b>\$ 291,409</b>	<b>\$ 696,542</b>	<b>\$ 261,830</b>	<b>\$ 1,249,781</b>	<b>18,507,358</b>	<b>19,757,139</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 49,319	\$ 462	\$	\$ 49,781		49,781
Due to other fund		6,790		6,790	(6,790)	0
Long-term liabilities, Note 5:						
Due within one year				0	3,952,527	3,952,527
Due in more than one year				0	31,005,247	31,005,247
<b>Total liabilities</b>	<b>49,319</b>	<b>7,252</b>	<b>0</b>	<b>56,571</b>	<b>34,950,984</b>	<b>35,007,555</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property tax revenues	15,844	791	0	16,635	(16,635)	0
<b>FUND BALANCES / NET POSITION</b>						
Fund balances:						
Restricted for bond interest, Note 5		99,918		99,918	(99,918)	0
Assigned to:						
Debt service		588,581		588,581	(588,581)	0
Capital projects			261,830	261,830	(261,830)	0
Unassigned	226,246			226,246	(226,246)	0
<b>Total fund balances</b>	<b>226,246</b>	<b>688,499</b>	<b>261,830</b>	<b>1,176,575</b>	<b>(1,176,575)</b>	<b>0</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$ 291,409</b>	<b>\$ 696,542</b>	<b>\$ 261,830</b>	<b>\$ 1,249,781</b>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(16,106,931)	(16,106,931)
Restricted for debt service					592,595	592,595
Restricted for capital projects					261,830	261,830
Unrestricted, Note 5					2,090	2,090
<b>Total net position</b>					<b>\$ (15,250,416)</b>	<b>\$(15,250,416)</b>

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

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1

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

FOR THE YEAR ENDED APRIL 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>						
Property taxes	\$ 175,214	\$ 318,074	\$	\$ 493,288	\$ 14,809	\$ 508,097
Payments from Town of Little Elm, Note 9	1,071	283,763		284,834		284,834
Capital recovery fees, Note 9	115,000			115,000		115,000
Penalty, interest and other		571		571		571
Accrued interest on bonds received at date of sale		6,728		6,728	(6,728)	0
Interest on deposits	659	1,973		2,632		2,632
<b>Total revenues</b>	<b>291,944</b>	<b>611,109</b>	<b>0</b>	<b>903,053</b>	<b>8,081</b>	<b>911,134</b>
<b>EXPENDITURES / EXPENSES</b>						
Service operations:						
Purchased services, Note 9	8,544			8,544		8,544
Professional fees	44,688		76,312	121,000		121,000
Contracted services	29,487	2,381		31,868		31,868
Utilities	4,154			4,154		4,154
Repairs and maintenance	296,320			296,320		296,320
Administrative expenditures	14,922		90	15,012		15,012
Capital outlay / non-capital outlay			7,209,555	7,209,555	(142,660)	7,066,895
Debt service:						
Bond issuance expenditures			588,239	588,239		588,239
Interest and fees		335,344		335,344	(98,395)	236,949
<b>Total expenditures / expenses</b>	<b>398,115</b>	<b>337,725</b>	<b>7,874,196</b>	<b>8,610,036</b>	<b>(241,055)</b>	<b>8,368,981</b>
Excess (deficiency) of revenues over expenditures	(106,171)	273,384	(7,874,196)	(7,706,983)	249,136	(7,457,847)
<b>OTHER FINANCING SOURCES (USES)</b>						
Bonds issued, Note 5		382,589	6,127,411	6,510,000	(6,510,000)	0
Bond issuance discount, Note 5		(167,015)		(167,015)	167,015	0
Bond Anticipation Note repayment, Note 5			(1,685,000)	(1,685,000)	1,685,000	0
Bond Anticipation Note proceeds, Note 5			3,630,000	3,630,000	(3,630,000)	0
Developer advances, Note 5	120,000			120,000	(120,000)	0
<b>Total other financing sources (uses)</b>	<b>120,000</b>	<b>215,574</b>	<b>8,072,411</b>	<b>8,407,985</b>	<b>(8,407,985)</b>	<b>0</b>
Net change in fund balances / net position	13,829	488,958	198,215	701,002	(8,158,849)	(7,457,847)
Beginning of year	212,417	199,541	63,615	475,573	(8,268,142)	(7,792,569)
End of year	\$ 226,246	\$ 688,499	\$ 261,830	\$ 1,176,575	\$ (16,426,991)	\$ (15,250,416)

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

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1NOTES TO THE FINANCIAL STATEMENTSAPRIL 30, 2018

## NOTE 1: REPORTING ENTITY

Highway 380 Municipal Management District No. 1 (the "District") was created pursuant to Chapter 831 (S.B. 1878), Section 1, Acts of the 83<sup>rd</sup> Legislature of the State of Texas, Regular Session, 2013, codified as Chapter 3920, Special District Local Laws Code, as amended under the authority of Article III, Section 52 Article III, Section 52-a and Article XVI, Section 59 of the Texas Constitution and operates under and is governed by the provisions of Chapter 3920, Special District Local Laws Code, Chapter 375, Local Government Code, and Chapter 49, Texas Water Code, as amended. The District is located within the Town of Little Elm and Denton County, Texas. The District is a political subdivision of the State of Texas, governed by an appointed five member Board of Directors. The Board of Directors held its first meeting on May 7, 2014. The District is subject to the continuing supervision of the TCEQ with respect to water, wastewater and drainage. The District is empowered, among other things, to provide for water, wastewater, drainage, road and recreational facilities.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

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

Basic Financial Statements

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Basis of Accounting

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

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

### Interfund Activity

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

### Receivables

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

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

### Capital Assets

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Plant and equipment	10-45 years
Underground lines	45 years
Roads	45 years

Long-term Liabilities

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

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

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

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 1,176,575
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		18,514,148
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (12,925,000)	
Issuance discount (to be amortized as interest expense)	341,464	
Bond Anticipation Note payable	(3,630,000)	
Due to developers for operating advances	(240,000)	
Due to developers for construction	<u>(18,504,238)</u>	(34,957,774)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Uncollected property taxes		<u>16,635</u>
Net position, end of year		<u>\$ (15,250,416)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Total net change in fund balances		\$ 701,002
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay		142,660
<p>The receipt of developer advances provides current financial resources to the funds, while the repayment of such advances consume the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Developer advances		(120,000)
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Utility bonds issued	\$ (3,160,000)	
Road bonds issued	(3,350,000)	
Bond Anticipation Note paid	1,685,000	
Bond Anticipation Note sold	<u>(3,630,000)</u>	(8,455,000)
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Issuance discount		155,429
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable		
Uncollected property taxes		14,809
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>103,253</u>
Change in net position		<u>\$ (7,457,847)</u>

NOTE 4: CAPITAL ASSETS

At April 30, 2018, "Invested in capital assets, net of related debt" was \$(16,106,931). As further described in Note 9, under the terms of agreements with the Town of Little Elm and Mustang Special Utility District, the District transfers the ownership of certain capital assets constructed by the District to the respective entity. Under the terms of the agreements, the District is to pay for construction of a water distribution system, a sanitary sewer collection system, a drainage system and roads to serve the District. The District shall be the owner of each phase of the system until such phase is completed and approved by the other entity, at which time ownership of such phase shall be transferred to the other entity. However, the District shall have a security interest therein until all bonds issued by the District pursuant to the respective agreement are retired.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended April 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 23,301,132	\$ 2,269,050	\$ 7,065,944	\$ 18,504,238
Easements	<u>0</u>	<u>9,910</u>	<u>0</u>	<u>9,910</u>
Total capital assets not being depreciated	<u>23,301,132</u>	<u>2,278,960</u>	<u>7,065,944</u>	<u>18,514,148</u>
 Total capital assets, net	 <u>\$ 23,301,132</u>	 <u>\$ 2,278,960</u>	 <u>\$ 7,065,944</u>	 <u>\$ 18,514,148</u>
 Changes to capital assets:				
Capital outlay		\$ 7,075,854	\$	
Capital outlay paid (decrease in liability) to developer		(7,285,867)		
Increase in liability to developer for construction		2,488,973		
Assets transferred to other entity			<u>7,065,944</u>	
Net increases / decreases to capital assets		<u>\$ 2,278,960</u>	<u>\$ 7,065,944</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended April 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 6,415,000	\$ 6,510,000	\$	\$ 12,925,000	\$ 345,000
Add (less) deferred amounts:					
For issuance (discounts) premiums	<u>(186,035)</u>	<u>(167,015)</u>	<u>(11,586)</u>	<u>(341,464)</u>	<u>(22,473)</u>
Total bonds payable	<u>6,228,965</u>	<u>6,342,985</u>	<u>(11,586)</u>	<u>12,583,536</u>	<u>322,527</u>
Bond Anticipation Note payable	<u>1,685,000</u>	<u>3,630,000</u>	<u>1,685,000</u>	<u>3,630,000</u>	<u>3,630,000</u>
Due to developers for operating advances (see below)	252,750	120,000	132,750	240,000	-----
Due to developers for construction (see below)	<u>23,301,132</u>	<u>2,488,973</u>	<u>7,285,867</u>	<u>18,504,238</u>	-----
Total due to developers	<u>23,553,882</u>	<u>2,608,973</u>	<u>7,418,617</u>	<u>18,744,238</u>	<u>0</u>
Total long-term liabilities	<u>\$ 31,467,847</u>	<u>\$ 12,581,958</u>	<u>\$ 9,092,031</u>	<u>\$ 34,957,774</u>	<u>\$ 3,952,527</u>

Developer Construction Commitments, Liabilities and Advances

The developer within the District has advanced funds to the District to cover initial operating deficits. At April 30, 2018, the cumulative amount of unreimbursed developer advances was \$240,000. These amounts have been recorded in the government-wide financial statements and in the schedules in Note 5. This amount has been recorded as a decrease in "Unrestricted net position" in the government-wide financial statements. Without this decrease, "Unrestricted net position" would have a balance of \$242,090.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The developer within the District has constructed certain underground facilities and roads within the District's boundaries. The District has agreed to reimburse the developer for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of future bond issues to the extent approved by the Texas Commission on Environmental Quality. The developer stated that unreimbursed cost of the construction in progress at April 30, 2018, was \$18,504,238. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

The District sold its Series 2017 Bond Anticipation Note in the amount of \$3,630,000 on December 7, 2017. The Note bears interest at a rate of 2.50% per annum and is due and payable on December 6, 2018.

The District will pay the amount due May 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in the future. As of April 30, 2018, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 345,000	\$ 426,685	\$ 771,685
2020	350,000	418,085	768,085
2021	365,000	409,335	774,335
2022	385,000	401,765	786,765
2023	390,000	392,495	782,495
2024 - 2028	2,205,000	1,793,173	3,998,173
2029 - 2033	2,665,000	1,424,022	4,089,022
2034 - 2038	3,195,000	928,474	4,123,474
2039 - 2042	<u>3,025,000</u>	<u>291,280</u>	<u>3,316,280</u>
	<u>\$ 12,925,000</u>	<u>\$ 6,485,314</u>	<u>\$ 19,410,314</u>

Road bonds voted	\$ 118,450,000
Road bonds approved for sale and sold	9,765,000
Road bonds voted and not issued	108,685,000
Water, sewer and drainage bonds voted	69,825,000
Water, sewer and drainage bonds approved for sale and sold	3,160,000
Water, sewer and drainage bonds voted and not issued	66,665,000

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The bond issues payable at April 30, 2018, were as follows:

	<u>Series 2016 Road</u>	<u>Series 2017 Utility</u>	<u>Series 2017 Road</u>
Amounts outstanding, April 30, 2018	\$6,415,000	\$3,160,000	\$3,350,000
Interest rates	2.10% to 3.625%	2.00% to 3.875%	2.00% to 4.00%
Maturity dates, serially beginning/ending	May 1, 2019/2042	May 1, 2019/2042	May 1, 2019/2042
Interest payment dates	May 1/November 1	May 1/November 1	May 1/November 1
Callable dates	May 1, 2024*	May 1, 2025*	May 1, 2025*

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

In accordance with the Series 2016 Road Bond Order, the Series 2017 Utility Bond Order and the Series 2017 Road Bond Order, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

Bond interest reserve, beginning of year:			
Series 2016 road bonds			\$ 199,049
18 months' interest from sale of Series 2017 utility bonds		\$ 158,228	
Accrued interest received at date of sale		<u>3,223</u>	161,451
6 months' interest from sale of Series 2017 road bonds		57,347	
Accrued interest received at date of sale		<u>3,504</u>	60,851
Deduct appropriation for bond interest paid:			
Series 2016 road bonds		(199,049)	
Series 2017 utility bonds		(61,533)	
Series 2017 road bonds		<u>(60,851)</u>	<u>(321,433)</u>
Bond interest reserve, end of year:			
Series 2017 utility bonds			<u>\$ 99,918</u>

**NOTE 6: PROPERTY TAXES AND CONCENTRATION OF TAX BASE**

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

At an election held May 19, 2015, the voters within the District authorized a maintenance tax not to exceed \$1.20 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District. There is no tax limitation on the rate or amount of taxes that can be levied to pay debt service on water, wastewater, drainage and road bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On September 14, 2017, the District levied the following ad valorem taxes for the 2017 tax year on the adjusted taxable valuation of \$96,625,684:

	<u>Rate</u>	<u>Amount</u>
Debt service, Utilities	\$ 0.0800	\$ 77,301
Debt service, Roads	0.2500	241,564
Maintenance	<u>0.1800</u>	<u>173,926</u>
	<u>\$ 0.5100</u>	<u>\$ 492,791</u>

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

2017 tax year total property tax levy	\$ 492,791
Appraisal district adjustments to prior year taxes	<u>15,306</u>
Statement of Activities property tax revenues	<u>\$ 508,097</u>

Concentration of Tax Base

The District's tax base is concentrated in a small number of taxpayers. The District's developer owns a substantial portion of land within the District. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet the debt service obligations described in Note 5.

NOTE 7: DEPOSITS

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

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

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits and the bank balance were \$1,150,101. Of the bank balance, \$250,000 was covered by federal insurance and \$900,101 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Debt Service Fund

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

Cash	\$	447,411
Certificate of deposit		<u>235,000</u>
		<u>\$ 682,411</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$	<u>261,830</u>
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NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At April 30, 2018, the District had property damage and boiler and machinery coverage of \$2,591,000, general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, umbrella liability coverage of \$1,000,000, workers compensation coverage of \$1,000,000 and consultant's crime coverage of \$10,000.

NOTE 9: CONTRACTS WITH OTHER GOVERNMENTAL ENTITIES

Town of Little Elm

The District lies wholly within the corporate boundaries of the Town of Little Elm (the "Town"). Effective October 15, 2013, the District entered into a Public Improvements Agreement and Chapter 380 Economic Development Agreement (the "Agreement") with the Town of Little Elm and the developer. In consideration of the District's acquiring and constructing road and utility systems on behalf of the Town, the Town agrees, pursuant to the terms and conditions of the Agreement, to own, operate and maintain the road and drainage systems. In addition, the Town shall rebate 46% of the ad valorem taxes imposed and collected by the Town on land and improvements located within the District back to the District. Under the terms of the Agreement, the rebate will be used by the District to pay for the design and construction of roads, utilities, recreational facilities and firefighting facilities or to pay debt service on bonds issued by the District for such purposes. If such rebate is insufficient to make debt service payments, the District is obligated to levy a debt service tax in an amount sufficient to make such payments. The Town will pay the rebate to the District on February 28<sup>th</sup> of the year following the year in which the taxes were levied and every 90 days thereafter until the full rebate for that tax year has been paid. The Town shall withhold 2% of the rebate for each tax year, after deducting the cost of tax collection, to be deposited into a sinking fund. All funds remaining in the sinking fund at the conclusion of the Agreement shall be paid the District with the final rebate payment. During the year ended April 30, 2018, the District accrued \$284,834 from the Town, of which \$13,012 was receivable at that date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In addition to the rebate, the Town shall collect a capital recovery fee of \$2,500 for each permitted single family home. The Town shall retain a portion of each capital recovery fee collected by the Town on the first 1,500 single family homes as follows: \$1,250 per home on the first 500 single family homes, \$1,000 per home on the next 500 single family homes and \$750 per home on the next 500 single family homes. During the year ended April 30, 2018, the District accrued \$115,000 for capital recovery fees.

Service Contract with Mustang Special Utility District

On September 11, 2014, the District entered into a water supply and wastewater treatment service contract (the "Contract") with Mustang Special Utility District ("Mustang SUD"). Under the terms of the Contract, the District will construct, or have constructed, a water production or distribution system and a wastewater collection system. Upon completion of such systems, the systems will be conveyed to Mustang SUD. In consideration of the District's construction and conveying such systems, Mustang SUD shall assume all operation and maintenance responsibilities for the water and wastewater systems. Mustang SUD receives wholesale treated surface water from the Upper Trinity Regional Water District ("UTRWD") and is a participant in the Riverbend Wastewater Treatment Plant which is owned and operated by the UTRWD. The District purchased \$8,544 of water from Mustang SUD during the year ended April 30, 2018.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 147,000	\$ 147,000	\$ 175,214	\$ 28,214
Payments from Town of Little Elm, Note 9	0	0	1,071	1,071
Capital recovery fees, Note 9	196,250	196,250	115,000	(81,250)
Interest on deposits	120	120	659	539
<b>TOTAL REVENUES</b>	<b>343,370</b>	<b>343,370</b>	<b>291,944</b>	<b>(51,426)</b>
<b>EXPENDITURES</b>				
Service operations:				
Purchased services	54,637	54,637	8,544	(46,093)
Professional fees	57,000	57,000	44,688	(12,312)
Contracted services	31,680	31,680	29,487	(2,193)
Utilities	3,000	3,000	4,154	1,154
Repairs and maintenance	290,500	290,500	296,320	5,820
Administrative expenditures	22,745	22,745	14,922	(7,823)
<b>TOTAL EXPENDITURES</b>	<b>459,562</b>	<b>459,562</b>	<b>398,115</b>	<b>(61,447)</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>(116,192)</b>	<b>(116,192)</b>	<b>(106,171)</b>	<b>10,021</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advances	120,000	120,000	120,000	0
<b>TOTAL OTHER FINANCIAL SOURCES (USES)</b>	<b>120,000</b>	<b>120,000</b>	<b>120,000</b>	<b>0</b>
<b>EXCESS SOURCES (USES)</b>	<b>3,808</b>	<b>3,808</b>	<b>13,829</b>	<b>10,021</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>212,417</b>	<b>212,417</b>	<b>212,417</b>	<b>0</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 216,225</b>	<b>\$ 216,225</b>	<b>\$ 226,246</b>	<b>\$ 10,021</b>

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

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

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
APRIL 30, 2018

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

- TSI-1. Services and Rates
- TSI-2. General Fund Expenditures
- TSI-3. Temporary Investments  
Not applicable.
- TSI-4. Taxes Levied and Receivable
- TSI-5. Long-Term Debt Service Requirements by Years
- TSI-6. Changes in Long-Term Bonded Debt
- TSI-7. Comparative Schedule of Revenues and Expenditures -  
General Fund and Debt Service Fund - Five Year
- TSI-8. Board Members, Key Personnel and Consultants



HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES

APRIL 30, 2018

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

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

2. Retail Service Providers

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

Not Applicable. See Note 9 of the Notes to the Financial Statements.

b. Water and Wastewater Retail Connections:

Not Applicable. See Note 9 of the Notes to the Financial Statements.

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

Not Applicable. See Note 9 of the Notes to the Financial Statements.

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

Does the District have Debt Service standby fees? Yes  No

If yes, date of the most recent Commission Order: \_\_\_\_\_

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1

EXPENDITURES

FOR THE YEAR ENDED APRIL 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CURRENT</b>				
Purchased services	\$ 8,544	\$ 0	\$ 0	\$ 8,544
Professional fees:				
Auditing	6,500			6,500
Legal	32,224		71,138	103,362
Engineering	5,964		5,174	11,138
	<u>44,688</u>	<u>0</u>	<u>76,312</u>	<u>121,000</u>
Contracted services:				
Bookkeeping	8,491			8,491
Management fees	20,996			20,996
Tax assessor-collector		354		354
Appraisal district		2,027		2,027
	<u>29,487</u>	<u>2,381</u>	<u>0</u>	<u>31,868</u>
Utilities	<u>4,154</u>	<u>0</u>	<u>0</u>	<u>4,154</u>
Repairs and maintenance	<u>296,320</u>	<u>0</u>	<u>0</u>	<u>296,320</u>
Administrative expenditures:				
Director's fees	2,550			2,550
Insurance	11,777			11,777
Other	595		90	685
	<u>14,922</u>	<u>0</u>	<u>90</u>	<u>15,012</u>
<b>CAPITAL OUTLAY</b>				
Authorized expenditures	<u>0</u>	<u>0</u>	<u>7,209,555</u>	<u>7,209,555</u>
<b>DEBT SERVICE</b>				
Bond issuance expenditures	<u>0</u>	<u>0</u>	<u>588,239</u>	<u>588,239</u>
Interest and fees:				
Interest		334,944		334,944
Paying agent fees		400		400
	<u>0</u>	<u>335,344</u>	<u>0</u>	<u>335,344</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 398,115</u>	<u>\$ 337,725</u>	<u>\$ 7,874,196</u>	<u>\$ 8,610,036</u>

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1ANALYSIS OF CHANGES IN DEPOSITS  
ALL GOVERNMENTAL FUND TYPESFOR THE YEAR ENDED APRIL 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS</b>				
Cash receipts from revenues excluding maintenance taxes	\$ 659	\$ 335,704	\$	\$ 336,363
Maintenance tax receipts		173,495		173,495
Transfer of maintenance taxes	174,984			174,984
Developer advances	120,000			120,000
Proceeds from sale of Bonds		215,574	6,127,411	6,342,985
Proceeds from Bond Anticipation Note			3,630,000	3,630,000
Capital recovery fees received	115,000			115,000
Rebate payments from Town of Little Elm	8,020	270,751		278,771
Receipt of interfund receivable	<u>6,200</u>	<u>          </u>	<u>          </u>	<u>6,200</u>
<b>TOTAL DEPOSITS PROVIDED</b>	<u>424,863</u>	<u>995,524</u>	<u>9,757,411</u>	<u>11,177,798</u>
<b>APPLICATIONS OF DEPOSITS</b>				
Cash disbursements for:				
Current expenditures	379,565	1,919	76,402	457,886
Capital outlay			7,209,555	7,209,555
Debt service		335,344		335,344
Prepaid expenditures	51,853			51,853
Payment of interfund payable			6,200	6,200
Transfer of maintenance taxes		174,984		174,984
Bond issuance expenses			588,239	588,239
Payment of Bond Anticipation Note			1,685,000	1,685,000
Bond Anticipation Note issuance expenses				<u>0</u>
<b>TOTAL DEPOSITS APPLIED</b>	<u>431,418</u>	<u>512,247</u>	<u>9,565,396</u>	<u>10,509,061</u>
<b>INCREASE (DECREASE) IN DEPOSITS</b>	(6,555)	483,277	192,015	668,737
<b>DEPOSITS BALANCES, BEGINNING OF YEAR</b>	<u>212,415</u>	<u>199,134</u>	<u>69,815</u>	<u>481,364</u>
<b>DEPOSITS BALANCES, END OF YEAR</b>	<u>\$ 205,860</u>	<u>\$ 682,411</u>	<u>\$ 261,830</u>	<u>\$ 1,150,101</u>

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1SCHEDULE OF CERTIFICATES OF DEPOSITFOR THE YEAR ENDED APRIL 30, 2018

DEBT SERVICE FUND	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
Certificate of Deposit				
No. 66000681	1.25%	10/26/18	\$ 170,000	\$ 314
No. 66000733	1.90%	10/26/18	<u>65,000</u>	<u>14</u>
			<u>\$ 235,000</u>	<u>\$ 328</u>

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED APRIL 30, 2018

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 1,826	\$ 0
Additions and corrections to prior year taxes	<u>15,306</u>	<u>0</u>
Adjusted receivable, beginning of year	17,132	0
2017 ADJUSTED TAX ROLL	<u>173,926</u>	<u>318,865</u>
Total to be accounted for	191,058	318,865
Tax collections: Current tax year	(173,495)	(318,074)
Prior tax years	<u>(1,719)</u>	<u>0</u>
RECEIVABLE, END OF YEAR	<u>\$ 15,844</u>	<u>\$ 791</u>
RECEIVABLE, BY TAX YEAR		
2015	\$ 13,916	\$ 0
2016	1,497	0
2017	<u>431</u>	<u>791</u>
RECEIVABLE, END OF YEAR	<u>\$ 15,844</u>	<u>\$ 791</u>

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1TAXES LEVIED AND RECEIVABLE (Continued)FOR THE YEAR ENDED APRIL 30, 2018

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Land	\$ 69,469,698	\$ 38,992,904	\$ 19,058,798
Improvements	55,230,076	4,980,400	23,264
Personal property	131,685	119,471	0
Less exemptions	<u>(28,205,775)</u>	<u>(14,461,783)</u>	<u>(14,834,277)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 96,625,684</u>	 <u>\$ 29,630,992</u>	 <u>\$ 4,247,785</u>
 TAX RATES PER \$100 VALUATION			
Debt service tax rates	\$ 0.33000	\$ 0.00000	\$ 0.00000
Maintenance tax rates**	<u>0.18000</u>	<u>0.50500</u>	<u>0.50500</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.51000</u>	 <u>\$ 0.50500</u>	 <u>\$ 0.50500</u>
 TAX ROLLS	 <u>\$ 492,791</u>	 <u>\$ 151,025</u>	 <u>\$ 35,368</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>99.8 %</u>	 <u>99.0 %</u>	 <u>60.7</u>

\*First year the District levied ad valorem taxes.

\*\*Maximum tax rate approved by voters on May 19, 2015: \$1.20

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS  
FOR THE YEAR ENDED APRIL 30, 2018

The District will pay the amount due May 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in the future.

Series 2016 Road			
Due During Fiscal Years Ending April 30	Principal Due May 1	Interest Due May 1, November 1	Total
2019	\$ 170,000	\$ 206,506	\$ 376,506
2020	175,000	201,406	376,406
2021	180,000	196,156	376,156
2022	190,000	192,376	382,376
2023	195,000	188,196	383,196
2024	200,000	183,516	383,516
2025	210,000	178,516	388,516
2026	220,000	172,742	392,742
2027	225,000	166,142	391,142
2028	235,000	159,392	394,392
2029	245,000	152,342	397,342
2030	255,000	144,992	399,992
2031	265,000	137,086	402,086
2032	275,000	128,606	403,606
2033	285,000	119,324	404,324
2034	295,000	109,706	404,706
2035	305,000	99,750	404,750
2036	315,000	89,456	404,456
2037	330,000	78,432	408,432
2038	340,000	66,882	406,882
2039	355,000	54,556	409,556
2040	370,000	41,688	411,688
2041	385,000	28,274	413,274
2042	395,000	14,318	409,318
TOTALS	\$ 6,415,000	\$ 3,110,360	\$ 9,525,360

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
FOR THE YEAR ENDED APRIL 30, 2018

The District will pay the amount due May 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in the future.

<u>Series 2017 Utility</u>			
<u>Due During Fiscal Years Ending April 30</u>	<u>Principal Due May 1</u>	<u>Interest Due May 1, November 1</u>	<u>Total</u>
2019	\$ 85,000	\$ 105,485	\$ 190,485
2020	85,000	103,785	188,785
2021	90,000	102,085	192,085
2022	95,000	100,195	195,195
2023	95,000	98,105	193,105
2024	100,000	95,825	195,825
2025	105,000	93,225	198,225
2026	110,000	90,285	200,285
2027	110,000	86,985	196,985
2028	115,000	83,575	198,575
2029	120,000	79,895	199,895
2030	125,000	75,995	200,995
2031	130,000	71,776	201,776
2032	135,000	67,356	202,356
2033	140,000	62,632	202,632
2034	145,000	57,556	202,556
2035	150,000	52,300	202,300
2036	155,000	46,862	201,862
2037	160,000	41,050	201,050
2038	170,000	35,050	205,050
2039	175,000	28,675	203,675
2040	180,000	21,894	201,894
2041	190,000	14,919	204,919
2042	195,000	7,556	202,556
TOTALS	<u>\$ 3,160,000</u>	<u>\$ 1,623,066</u>	<u>\$ 4,783,066</u>

See accompanying independent auditor's report.



HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
FOR THE YEAR ENDED APRIL 30, 2018

The District will pay the amount due May 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in the future.

Series 2017 Road			
Due During Fiscal Years Ending April 30	Principal Due May 1	Interest Due May 1, November 1	Total
2019	\$ 90,000	\$ 114,694	\$ 204,694
2020	90,000	112,894	202,894
2021	95,000	111,094	206,094
2022	100,000	109,194	209,194
2023	100,000	106,194	206,194
2024	105,000	103,194	208,194
2025	110,000	100,044	210,044
2026	115,000	96,744	211,744
2027	120,000	93,294	213,294
2028	125,000	89,694	214,694
2029	130,000	85,788	215,788
2030	135,000	81,562	216,562
2031	135,000	77,006	212,006
2032	140,000	72,281	212,281
2033	150,000	67,381	217,381
2034	155,000	62,131	217,131
2035	160,000	56,512	216,512
2036	165,000	50,512	215,512
2037	170,000	44,325	214,325
2038	180,000	37,950	217,950
2039	185,000	31,200	216,200
2040	190,000	23,800	213,800
2041	200,000	16,200	216,200
2042	205,000	8,200	213,200
	<u>\$ 3,350,000</u>	<u>\$ 1,751,888</u>	<u>\$ 5,101,888</u>
TOTALS			

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
FOR THE YEAR ENDED APRIL 30, 2018

The District will pay the amount due May 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in the future.

Due During Fiscal Years Ending April 30	Annual Requirements for All Series		
	Total Principal Due	Total Interest Due	Total
2019	\$ 345,000	\$ 426,685	\$ 771,685
2020	350,000	418,085	768,085
2021	365,000	409,335	774,335
2022	385,000	401,765	786,765
2023	390,000	392,495	782,495
2024	405,000	382,535	787,535
2025	425,000	371,785	796,785
2026	445,000	359,771	804,771
2027	455,000	346,421	801,421
2028	475,000	332,661	807,661
2029	495,000	318,025	813,025
2030	515,000	302,549	817,549
2031	530,000	285,868	815,868
2032	550,000	268,243	818,243
2033	575,000	249,337	824,337
2034	595,000	229,393	824,393
2035	615,000	208,562	823,562
2036	635,000	186,830	821,830
2037	660,000	163,807	823,807
2038	690,000	139,882	829,882
2039	715,000	114,431	829,431
2040	740,000	87,382	827,382
2041	775,000	59,393	834,393
2042	795,000	30,074	825,074
TOTALS	\$ 12,925,000	\$ 6,485,314	\$ 19,410,314

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1  
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Totals</u>
Bond Series:	2016 Road	2017 Utility	2017 Road	
Interest Rate:	2.10% to 3.625%	2.00% to 3.875%	2.00% to 4.00%	
Dates Interest Payable:	May 1/ November 1	May 1/ November 1	May 1/ November 1	
Maturity Dates:	May 1, 2019/2042	May 1, 2019/2042	May 1, 2019/2042	
Bonds Outstanding at Beginning of Current Year	\$ 6,415,000	\$ 0	\$ 0	\$ 6,415,000
Add Bonds Sold	0	3,160,000	3,350,000	6,510,000
Less Retirements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Bonds Outstanding at End of Current Year	<u>\$ 6,415,000</u>	<u>\$ 3,160,000</u>	<u>\$ 3,350,000</u>	<u>\$ 12,925,000</u>
Current Year Interest Paid	<u>\$ 206,506</u>	<u>\$ 61,533</u>	<u>\$ 66,905</u>	<u>\$ 334,944</u>

Bond Descriptions and Original Amount of Issue

- (1) Highway 380 Municipal Management District No. 1 Unlimited Tax Road Bonds, Series 2016 (\$6,415,000)  
(2) Highway 380 Municipal Management District No. 1 Unlimited Tax Utility Bonds, Series 2017 (\$3,160,000)  
(3) Highway 380 Municipal Management District No. 1 Unlimited Tax Road Bonds, Series 2017 (\$3,350,000)

Paying Agent/Registrar

(1) (2) (3) Amegy Bank, a division of ZB, N.A., Plano, Texas

<u>Bond Authority</u>	<u>Tax Bonds*</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 188,275,000	\$ 0	\$ 282,412,500
Amount Issued:	12,925,000		0
Remaining to be Issued:	175,350,000		282,412,500

\*See Note 5 of the notes to financial statements for additional information.

Net Debt Service Fund deposits and investments balances as of September 30, 2017: \$688,499  
Average annual debt service payment for remaining term of all debt: 808,763

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND

FOR YEARS ENDED APRIL 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2018	2017	2016	2015*	2014	2018	2017	2016	2015	2014
REVENUES										
Property taxes	\$ 175,214	\$ 147,810	\$ 21,451	\$	\$	60.0 %	36.1 %	31.4 %	N/A %	%
Payments from Town of Little Elm	1,071	86,696	20,386			0.4	21.2	29.8	N/A	
Capital recovery fees	115,000	174,750	26,500			39.4	42.7	38.8	N/A	
Penalty	0	63	0			0.0	0.0	0.0	N/A	
Interest on deposits	659	11	0			0.2	0.0	0.0	N/A	
<b>TOTAL REVENUES</b>	<b>291,944</b>	<b>409,330</b>	<b>68,337</b>	<b>0</b>	<b>0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>N/A</b>	<b>0.0</b>
EXPENDITURES										
Service operations:										
Purchased services	8,544	16,348	698			2.9	4.0	1.0	N/A	
Professional fees	44,688	90,658	42,414	73,260		15.4	22.2	62.1	N/A	
Contracted services	29,487	20,628	16,131	4,597		10.1	5.0	23.6	N/A	
Utilities	4,154	2,794	0	4,597		1.4	0.7	0.0	N/A	
Repairs and maintenance	296,320	296,211	0	4,597		101.5	72.4	0.0	N/A	
Administrative expenditures	14,922	16,072	9,444	12,995		5.1	3.9	13.8	N/A	
<b>TOTAL EXPENDITURES</b>	<b>398,115</b>	<b>442,711</b>	<b>68,687</b>	<b>100,046</b>	<b>0</b>	<b>136.4</b>	<b>108.2</b>	<b>N/A</b>	<b>0.0</b>	<b>0.0</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ (106,171)</b>	<b>\$ (33,381)</b>	<b>\$ (350)</b>	<b>\$ (100,046)</b>	<b>\$ 0</b>	<b>(36.4) %</b>	<b>(8.2) %</b>	<b>N/A %</b>	<b>0.0 %</b>	<b>0.0 %</b>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>					

\*First year of financial activity.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND

FOR YEARS ENDED APRIL 30

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2018</u>	<u>2017*</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>										
Property taxes	\$ 318,074	\$ 0				52.1 %	0.0 %	%	%	%
Payments from Town of Little Elm	283,763	0				46.4	0.0			
Penalty and interest	571	0				0.1	0.0			
Accrued interest on bonds received at date of sale	6,728	9,752				1.1	95.2			
Interest on deposits	1,973	492				0.3	4.8			
<b>TOTAL REVENUES</b>	<b><u>611,109</u></b>	<b><u>10,244</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>0.0</u></b>	<b><u>0.0</u></b>	<b><u>0.0</u></b>
<b>EXPENDITURES</b>										
Current:										
Professional fees	0	0				0.0	0.0			
Contracted services	2,381	0				0.4	0.0			
Other expenditures	0	0				0.0	0.0			
Debt service:										
Principal retirement	0	0				0.0	0.0			
Interest and fees	335,344	120,462				54.9	1175.9			
<b>TOTAL EXPENDITURES</b>	<b><u>337,725</u></b>	<b><u>120,462</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>55.3</u></b>	<b><u>1175.9</u></b>	<b><u>0.0</u></b>	<b><u>0.0</u></b>	<b><u>0.0</u></b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b><u>\$ 273,384</u></b>	<b><u>\$ (110,218)</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>44.7 %</u></b>	<b><u>(1,075. %)</u></b>	<b><u>0.0 %</u></b>	<b><u>0.0 %</u></b>	<b><u>0.0 %</u></b>

\*First year of financial activity.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSAPRIL 30, 2018

Complete District Mailing Address: Highway 380 Municipal Management District No. 1  
 c/o Coats Rose, P.C.  
 14755 Preston Road, Suite 600  
 Dallas, Texas 75254

District Business Telephone No.: 972-788-1600

Submission date of the most recent District Registration Form: April 12, 2018

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

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Philip Morgan c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Appointed 6/01/15- 5/31/19	\$ 1,200	\$ 138	President
Kyle Huckelberry c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Appointed 6/01/17- 5/31/21	1,050	120	Vice President
Doug Peach c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Appointed 6/01/15- 5/31/19	0	0	Secretary
Teague Griffin c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Appointed 6/01/17- 5/31/21	0	0	Assistant Secretary
Danielle Androes c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Appointed 6/01/17- 5/31/21	300	22	Assistant Secretary

See accompanying independent auditor's report.

HIGHWAY 380 MUNICIPAL MANAGEMENT DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)APRIL 30, 2018CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	5/7/14	\$ 32,224 239,879 Bonds	Attorney
L & S District Services, LLC P.O. Box 170 Tomball, Texas 77377	5/7/14	8,491 1,800 Bonds	Bookkeeper
Cindy Schmidt P.O. Box 170 Tomball, Texas 77377	8/4/14	0	Investment Officer
Kimley-Horn & Associates, Inc. 5750 Genesis Court Frisco, Texas 75034	4/13/17	5,657	Engineer
First Service Residential Texas, Inc. 3102 Oak Lawn Avenue, Suite 202 Dallas, Texas 75219	2/1/15	20,996	Management Consultant
Denton County Tax Assessor-Collector P.O. Box 90223 Denton, Texas 76202	9/10/15	354	Tax Assessor- Collector
Denton Central Appraisal District P.O. Box 2816 Denton, Texas 76202	Legislative Action	2,027	Central Appraisal District
Robert W. Baird & Co. 1331 Lamar, Suite 1360 Houston, Texas 77010	1/8/15	172,212 Bonds	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	7/14/16	6,500 9,850 Bonds	Independent Auditor

See accompanying independent auditor's report.

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**





**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

SPECIMEN

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

200 Liberty Street, 27th floor  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN