

**OFFICIAL STATEMENT DATED MARCH 8, 2018**

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT INCLUDED IN THE ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS. SEE "TAX MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL INCLUDING A DESCRIPTION OF CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

*The District has designated the Bonds as "qualified tax-exempt obligations" for financial institutions. See "QUALIFIED TAX-EXEMPT OBLIGATIONS."*

**NEW ISSUE – Book Entry Only**

**RATINGS: S&P Global Ratings (BAM Insured) ..... "AA" (Stable Outlook)  
S&P Global Ratings (Underlying) ..... "BBB" (Stable Outlook)  
See "MUNICIPAL BOND INSURANCE" and "RATINGS" herein.**

**\$2,245,000**

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**

(A Political Subdivision of the State of Texas, located within Kaufman County)

**UNLIMITED TAX ROAD REFUNDING BONDS, SERIES 2018**

**Interest accrues from: April 1, 2018**

**Due: March 1, as shown below**

The \$2,245,000 Kaufman County Municipal Utility District No. 11 Unlimited Tax Road Refunding Bonds, Series 2018 (the "Bonds") are obligations of Kaufman County Municipal Utility District No. 11 (the "District") and are not obligations of the State of Texas; Kaufman County, Texas; the City of Crandall; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Kaufman County, Texas, the City of Crandall; 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/registrant (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 (the "Bondholder(s)") 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 is payable on September 1, 2018, and each March 1 and September 1 thereafter 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 "Record Date"). Unless otherwise agreed between the Paying Agent/Registrar and a Bondholder, such interest is payable by check mailed to such persons or by other means acceptable to such person and the Paying Agent/Registrar. The Bonds are issuable in principal denominations of \$5,000 or any integral multiple thereof in fully registered form only.

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.



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

Due (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 48619P (b)	Due (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 48619P (b)
2019	\$ 20,000	3.000%	2.000%	EL6	2028(c)	\$ 140,000	3.000%	3.150%	EV4
2020	105,000	3.000%	2.100%	EM4	2029(c)	145,000	3.000%	3.200%	EW2
2021	105,000	2.000%	2.250%	EN2	2030(c)	150,000	3.000%	3.300%	EX0
2022	105,000	2.000%	2.400%	EP7	2031(c)	155,000	3.125%	3.400%	EY8
2023	115,000	2.000%	2.550%	EQ5	2032(c)	165,000	3.250%	3.500%	EZ5
2024	120,000	4.000%	2.700%	ER3	2033(c)	170,000	3.375%	3.550%	FA9
2025(c)	125,000	2.375%	2.850%	ES1	2034(c)	180,000	3.375%	3.600%	FB7
2026(c)	125,000	2.625%	3.000%	ET9	2035(c)	185,000	3.500%	3.650%	FC5
2027(c)	135,000	2.750%	3.100%	EU6					

- (a) The initial reoffering yield has been provided by the Underwriter (defined herein) and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from April 1, 2018 is to be added to the price.
- (b) CUSIP numbers have been assigned to this issue by the CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the Purchasers of the Bonds. None of the District, the Financial Advisor or the Underwriter shall be responsible for the correctness of the CUSIP numbers shown herein.
- (c) The Bonds are subject to redemption prior to maturity at the option of the District, as a whole or from time to time in part, on March 1, 2024, or any date thereafter at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption. See "THE BONDS – Optional Redemption."

The proceeds of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$2,105,000 in principal amount (the "Refunded Bonds") of the District's Unlimited Tax Road Bonds, Series 2010 (the "Series 2010 Bonds"). The refunding of the Refunded Bonds is expected to result in an annual and net present value savings in the District's current annual debt service requirements. See "PLAN OF FINANCING."

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 against all taxable property within the District.

Investment in the Bonds is subject to special INVESTMENT CONSIDERATIONS as described herein. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered when, as and if issued by the District and accepted by the underwriter listed below (the "Underwriter"), subject among other things to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Coats Rose, P.C., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Underwriter's Counsel. The Bonds in definitive form are expected to be available for delivery in Houston, Texas, on or about April 10, 2018. See "LEGAL MATTERS."

**SAMCO Capital Markets, Inc.**

Financial Advisor:

## **USE OF INFORMATION IN OFFICIAL STATEMENT**

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District.

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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, resolutions, contracts, audits, 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 Robert W. Baird & Co. Incorporated, 1331 Lamar, Suite 1360, Houston, Texas 77010, the Financial Advisor to the District.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in the Official Statement in accordance with, and as part of, its responsibility to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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 that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in the Official Statement until delivery of the Bonds to the Underwriter, and thereafter only as specified in "OFFICIAL STATEMENT - Updating of Official Statement" and "CONTINUING DISCLOSURE."

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter have reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. See "OFFICIAL STATEMENT - Forward-Looking Statements" herein.

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 (the "Rule").

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

### **Underwriting**

SAMCO Capital Markets, Inc. (the “Underwriter”) has agreed to purchase the Bonds from the District pursuant to the terms of a bond purchase agreement (the “Bond Purchase Agreement”) for \$2,245,000 (being the par amount of the Bonds), less a net original issue discount on the Bonds of \$34,986.30 and less an underwriter’s discount of \$27,223.71, plus accrued interest on the Bonds to the date of delivery. The Underwriter’s obligation is to purchase all of the Bonds, if any Bonds are purchased.

### **Prices and Marketability**

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 receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public or prices for which have been held as provided in the Bond Purchase Agreement. For this purpose, the term “public” shall not include any person who is a bondhouse, broker, dealer, or similar person or organization acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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.”

Subject to provisions of the Bond Purchase Agreement, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

### **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 the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws 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 jurisdiction.

## **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 included as an exhibit 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 December 31, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$515 million, \$87.7 million and \$427.3 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 the 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/creditsights/](http://buildamerica.com/creditsights/). (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 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.

## **RATINGS**

S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("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 Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P solely in reliance upon the issuance of the municipal bond insurance policy issued by BAM at the time of delivery of the Bonds.

S&P has assigned an underlying rating of "BBB" (Stable Outlook) to the Bonds.

The foregoing ratings express only the view of S&P at the time such ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. 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 their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds. The District is not aware of any rating assigned to the Bonds other than the rating assigned by 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 ..... Kaufman County Municipal Utility District No. 11 (the "District"), a political subdivision of the State of Texas, is located approximately 18 miles east of downtown Dallas and wholly in the extraterritorial jurisdiction of the City of Crandall and within Kaufman County, Texas. The District is part of the approximately 2,300 acre master-planned community being marketed as "Heartland."
- The Issue ..... The District is issuing its \$2,245,000 Unlimited Tax Road Refunding Bonds, Series 2018 (the "Bonds"). Interest accrues from April 1, 2018, and the Bonds mature in serial installments on March 1 of each of the years and in the amounts shown on the cover hereof. Interest is payable September 1, 2018, and on each March 1 and September 1 thereafter until maturity or prior redemption. The Bonds maturing on and after March 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or in part, on March 1, 2024, 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 - General", and "- Redemption Provisions."
- Authority for Issuance..... The Bonds constitute the second series of unlimited tax refunding bonds for road purposes issued by the District. Voters in the District have authorized a total of \$78,000,000 principal amount of unlimited tax refundings bonds for road purposes. Such bonds are authorized by the legislation creating the District, the order of the District's Board of Directors approved on February 21, 2018 authorizing the issuance of the Bonds (the "Order"), Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, an election held within the District on November 8, 2005, and the general laws of the State of Texas. In the Order, the District's Board of Directors authorized an officer of the District to execute a pricing certificate on the date on the sale of the Bonds (the "Pricing Certificate"), which will complete the sale of the Bonds. The Order and the Pricing Certificate are collectively referred to herein as the "Bond Order." See "THE BONDS - Authority for Issuance", and "- Issuance of Additional Debt."
- Source of Payment..... Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Kaufman County, the City of Crandall or any entity other than the District. See "THE BONDS - Sources of Payment."
- Use and Distribution of Bonds Proceeds ... The proceeds of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$2,105,000 in principal amount (the "Refunded Bonds") of the District's Unlimited Tax Road Bonds, Series 2010 (the "Series 2010 Bonds"). The refunding of the Refunded Bonds is expected to result in an annual and net present value savings in the District's current annual debt service requirements. See "PLAN OF FINANCING."



Qualified Tax-Exempt Obligations.....	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended (the “Code”), and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2018 is not reasonably expected to exceed \$10,000,000. See “QUALIFIED TAX-EXEMPT OBLIGATIONS.”
Remaining Outstanding Bonds.....	In addition to the Series 2010 Bonds, the District has previously issued its \$5,250,000 Unlimited Tax Bonds, Series 2007 (the “Series 2007 Bonds”); \$3,300,000 Unlimited Tax Road Bonds, Series 2009 (the “Series 2009 Bonds”); \$1,880,000 Unlimited Tax Road Bonds, Series 2014 (the “Series 2014 Bonds”); and \$5,900,000 Unlimited Tax Road Bonds, Series 2017 (the “Series 2017 Bonds”). The District has also issued its \$6,605,000 Unlimited Tax Road Refunding Bonds, Series 2014 (the “Series 2014 Refunding Bonds”), which refunded a portion of the bonds previously issued. Excluding the Refunded Bonds, \$14,100,000 in principal amount of such bonds remains outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING – Remaining Outstanding Bonds”.
Payment Record.....	The District has never defaulted on the timely payment of principal and interest on its Remaining Outstanding Bonds. See “THE BONDS – Source of Payment.”
Municipal Bond Insurance .....	Build America Mutual Assurance Company (“BAM”). See “MUNICIPAL BOND INSURANCE” and “RATINGS.”
Ratings .....	S&P Global Ratings (BAM Insured) – “AA” (stable outlook). S&P Global Ratings (Underlying) – “BBB” (stable outlook). See “MUNICIPAL BOND INSURANCE” and “RATINGS.”
Legal Opinion .....	Coats Rose, P.C., Dallas, Texas, Bond Counsel. See “LEGAL MATTERS.”
Underwriter’s 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.
Verification Agent .....	Grant Thornton LLP, Certified Public Accountants.

**THE DISTRICT**

Description.....	The District is a political subdivision of the State of Texas, is located in the extraterritorial jurisdiction of the City of Crandall in Kaufman County, approximately 18 miles east of the City of Dallas, 8 miles east of the City of Mesquite and 2 miles north of the City of Crandall. It is bordered on the north by Interstate 20, on the south by F.M. 2757 and is adjacent to F.M. 741. The District is located in the Crandall Independent School District. All of the land within the District is within the extraterritorial jurisdiction of the City of Crandall. See “THE DISTRICT – General, and – Description.”
Authority.....	The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – General.”

Heartland..... The District is part of the approximately 2,300 acre master-planned community of "Heartland." Heartland is comprised of the District, Kaufman County Municipal Utility District No. 9 ("KCMUD No. 9"), Kaufman County Municipal Utility District No. 10 ("KCMUD No. 10"), Kaufman County Municipal Utility District No. 12 ("KCMUD No. 12") and Kaufman County Municipal Utility District No. 14 ("KCMUD No. 14"), and are collectively referred to herein as the "Heartland Districts". See "HEARTLAND."

Status of Development  
 Within the District..... Of the approximately 454 acres of land located within the District, approximately 291 acres within the District have been developed with water distribution, sanitary sewer, and storm drainage and road facilities to serve the single-family residential subdivisions of Heartland, Phases/Parcels 1A, 1B, 2A, 2B, 2C, 3A, 3B and 4A consisting of 1,246 lots. As of January 1, 2018, the District was comprised of 1,207 completed and occupied homes; 24 completed and unoccupied homes; 5 homes under construction; and 10 vacant, developed lots. The remaining acreage within the District is comprised of approximately 76 undeveloped but developable acres and 87 undevelopable acres. See "DEVELOPMENT STATUS OF THE DISTRICT."

Status of Development within Heartland... There are approximately 560 acres fully developed in Heartland. As of January 1, 2018, development within the Heartland Districts included 2,425 completed lots, 573 lots under development, 2,034 completed homes, 204 homes under construction and 187 vacant, developed lots. The Heartland Districts contain approximately 1,450 undeveloped but developable acres, approximately 147 acres of commercial reserves and approximately 143 undevelopable acres. See "HEARTLAND."

Developers/Principal Landowners..... The developer of land within the District is UST-Heartland, L.P. ("UST" or the "Developer"). UST was formerly known as HW Heartland, L.P.  
 UST Heartland GP, LLC, a Texas limited liability company ("Heartland GP"), is the sole general partner of UST. UST Subpartnership II, L.P., a Delaware limited partnership ("USTII"), is the sole limited partner of UST. Each of UST II and Heartland GP are wholly owned subsidiaries of UST Joint Venture Opportunity I, L.P., a Delaware limited partnership ("UST JV"), formed to invest in industrial, commercial, residential, office, hotel, hospital, medical, sports arena, mixed use, condominium, timeshare, golf course, and recreation properties throughout the United States. The Developer is managed by UST Opportunity Corporation, a company owned by Lothar Estein who has over 35 years' experience in US real estate investment. UST currently owns approximately 76 acres and 14 vacant developed lots in the District, as well as virtually all of the vacant land in the remainder of Heartland. See "THE DEVELOPER."

Development Manager..... In July, 2013, UST engaged Huffines Management Partners, L.P. (d/b/a "Huffines Communities"), to perform management services related to the development of property within Heartland. Huffines Communities is in the business of managing and developing real property, including residential communities. Since its inception in 1985, Huffines Communities has owned, or has developed or entitled for development, over 15,000 residential lots. Among its "signature" communities are: Waterview in Rowlett, Texas; Providence in Providence, Texas; Savannah in Savannah, Texas;

and Inspiration in Collin County, Texas. Huffines Communities also has significant experience as the developer of master planned communities located within special districts in Texas similar to the District, having been involved with more than ten special districts in the state. There is no assurance that Huffines Communities will continue to be the manager for the development of the property, as UST and Huffines Communities have the right, upon prior notice to the other and for certain other reasons, to terminate the management services agreement between them. Huffines Communities has no ownership in Heartland or UST.

Homebuilders Within the District..... Homebuilders active within the District include History Maker Homes, Highland Homes, Impression Homes, Bloomfield Homes and Lennar Homes. Home prices range from \$205,000 to \$300,000 and 1,360 to 3,000 in square footage. See “THE DEVELOPER” and “DEVELOPMENT STATUS OF THE DISTRICT.”

Regional Facilities ..... Kaufman County Municipal Utility District No. 12 (the “Master District”) is the municipal utility district which has contracted with the District and the remaining Heartland Districts to provide the water supply and wastewater treatment capacity as well as the regional water distribution, regional wastewater collection trunk lines and regional stormwater collection trunklines necessary to serve Heartland (collectively, the “Master District Facilities”). See “THE SYSTEM.”

Agreements with City of Mesquite..... Water supply and wastewater treatment are provided to Heartland by the City of Mesquite which, in turn, purchases water and wastewater treatment service from the North Texas Municipal Water District (“NTMWD”), a regional provider of such services. In April 2006, NTMWD issued bonds to construct a wastewater interceptor, in the vicinity of Heartland, to serve the area within the Heartland Districts. Debt service on such bonds is being paid by the City of Mesquite (which has contracted with the Heartland Districts to obtain payment of amounts sufficient to cover their portion of such debt service) and the City of Seagoville, which are the entities entitled to utilize capacity in the interceptor. Currently the Heartland Districts are obligated through their contract with the City of Mesquite to pay 78.21% of the annual debt service. For the fiscal year ending September 30, 2017, the payments allocable to the Heartland Districts were \$1,030,270, and the projected payments allocable to the Heartland Districts for the fiscal year ending September 30, 2018 are approximately \$1,027,015. Such payments are secured by the unlimited taxing authority of the Heartland Districts. However, such payments currently are being made from revenues of the Heartland Districts and also monies advanced to the Master District by the Developer. See “THE SYSTEM” and “INVESTMENT CONSIDERATIONS.”

**INVESTMENT CONSIDERATIONS**

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED “INVESTMENT CONSIDERATIONS.”

**SELECTED FINANCIAL INFORMATION  
(UNAUDITED)**

2017 Taxable Assessed Valuation..... (100% of taxable value as of January 1, 2017)	\$200,946,309 (a)
Estimated Valuation as of July 1, 2017 ..... (100% of estimated taxable value as of July 1, 2017)	\$213,319,844 (b)
Direct Debt:	
The Remaining Outstanding Bonds.....	\$ 14,100,000 (c)
The Bonds .....	<u>2,245,000</u>
Total .....	\$ 16,345,000
Estimated Overlapping Debt.....	\$ <u>24,941,992</u> (d)
Total Direct and Estimated Overlapping Debt .....	<u>\$ 42,286,992</u>
Ratio of Direct Debt to.....	2017 Taxable Assessed Valuation (\$200,946,309) ... 8.13%
	Estimated Valuation as of 7-1-17 (\$213,319,844) ..... 7.66%
Ratio of Direct and Estimated Overlapping Debt to.....	2017 Taxable Assessed Valuation (\$200,946,309) ... 21.04%
	Estimated Valuation as of 7-1-17 (\$213,319,844) ..... 19.82%
Debt Service Fund Balance (as of January 17, 2018) .....	\$ 1,077,553 (e)
General Fund Balance (as of January 17, 2018) .....	\$ 971,332
2017 Tax Rate	
Debt Service.....	\$0.49
Maintenance & Operation.....	<u>0.51</u>
Total.....	<u>\$1.00</u> (f)
Average Annual Debt Service Requirements (2018-2043).....	\$ 939,862 (g)
Maximum Annual Debt Service Requirements (2029).....	\$ 1,042,188 (g)
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Remaining Outstanding Bonds and the Bonds (2018-2043) at 95% Tax Collections	
Based Upon 2017 Assessed Valuation (\$200,946,309) .....	\$0.50 (g)
Based Upon Estimated Valuation as 7-1-17 (\$213,319,844).....	\$0.47 (g)
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Remaining Outstanding Bonds and the Bonds (2029) at 95% Tax Collections	
Based Upon 2017 Assessed Valuation (\$200,946,309) .....	\$0.55 (g)
Based Upon Estimated Valuation as 7-1-17(\$213,319,844).....	\$0.52 (g)
Tax Rate per \$100 of Assessed Valuation Required to Fund Annual Payment to the City of Mesquite at 95% Tax Collections	
Based Upon 2017 Assessed Valuation for the Heartland Districts (\$344,758,061) ...	\$0.31 (g)(h)
Single-Family Homes (including 5 homes under construction) as of January 1, 2018.....	1,236

- (a) As certified by the Kaufman County Appraisal District (the "Appraisal District"). See "TAX DATA" and "TAXING PROCEDURES."  
(b) Provided by the Appraisal District for information purposes only. Reflects the addition of value of new construction within the District from January 1, 2017 to July 1, 2017. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAX DATA" and "TAXING PROCEDURES."  
(c) Includes the Bonds and excludes the Refunded Bonds.  
(d) See "DISTRICT DEBT - Estimated Overlapping Debt."  
(e) Neither Texas law nor the Bond Order (hereinafter defined) requires that the District maintain any particular sum in the Debt Service Fund.  
(f) See "TAX DATA - Tax Rate Distribution."  
(g) See "DISTRICT DEBT - Debt Service Requirements."  
(h) See "INVESTMENT CONSIDERATIONS - Obligations to the City of Mesquite" and "TAX DATA."

## INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Kaufman County Municipal Utility District No. 11 (the "District") and the initial purchase by the underwriter listed on the cover page hereof (the "Underwriter"), of the District's \$2,245,000 Unlimited Tax Road Refunding Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to (i) the legislation creating the District, (ii) the order authorizing the issuance of the Bonds approved on February 21, 2018 (the "Order") authorized by the of the Board of Directors of the District (the "Board"), (iii) the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, as amended, and (iv) an election held by the District on November 8, 2005. In the Order, the Board authorized an officer of the District to execute a pricing certificate on the date of the sale of the Bonds (the "Pricing Certificate"), which will complete the sale of the Bonds. The Order and the Pricing Certificate are collectively referred to herein as the "Bond Order."

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

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.

## 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 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.

The Bonds are dated April 1, 2018, with interest payable September 1, 2018, and each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully-registered serial bonds maturing on September 1 on the years shown on the cover page of this Official Statement. The Bonds maturing on and after March 1, 2025 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on March 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity are redeemed, the Paying Agent/Registrar (defined below) shall select the particular Bonds to be redeemed by random selection method.

The Bonds will be issued only in fully registered form in any integral multiples of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to The Depository Trust Company, New York, New York ("DTC") in its nominee name of Cede & Co., pursuant to the book-entry-only system described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by ZB, National Association, dba Amegy Bank, Houston, Texas (the "Paying Agent/Registrar"), the Paying Agent/Registrar to Cede & Co., as registered owner. DTC will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" Below.

In the event the Book-Entry-Only System is discontinued and physical bond certificates issued, interest on the Bonds shall be payable by check mailed by the Paying Agent/Registrar on or before each interest payment date, to the registered owners ("Registered Owners") as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owner at the risk and expense of such Registered Owner.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day without additional interest and with the same force and effect as if made on the specified date for such payment.

## **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 and the Underwriter believe the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The District and the Underwriter cannot and do 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 certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, 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).

Redemption proceeds, principal and interest 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 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.

#### **Paying Agent/Registrar**

The Board has selected ZB, National Association, dba Amegy Bank, Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The initial designated payment office for the Bonds is located in Houston, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$50,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the United States Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

#### **Registration, Transfer and Exchange**

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges

required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of the Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

**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.

**Authority for Issuance**

The bonds authorized by the resident electors of the District, the amount of bonds issued and the remaining authorized but unissued bonds are as follows:

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized But Unissued</u>
11/08/2005	Road	\$ 52,000,000	\$18,950,000	\$ 33,050,000
11/08/2005	WS&D	86,000,000	-0-	86,000,000
11/08/2005	Road Refunding	78,000,000	527,810(a)	77,472,190
11/08/2005	WS&D Refunding	129,000,000	-0-	129,000,000

(a) Includes the Bonds.

The Bonds are issued by the District pursuant to the terms and conditions of (i) the legislation creating the District, (ii) the Bond Order, (iii) Article III, Section 52 of the Texas Constitution, (iv) Chapters 49 and 54 of the Texas Water Code, as amended, and (v) the general laws of the State of Texas applicable to municipal utility districts.

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

**Source of Payment**

The Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax levied without legal limitation as to rate or amount against taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's Debt Service Fund and used to pay principal of and interest on the Bonds and on any additional bonds payable from taxes which may hereafter be issued by the District.

**Redemption Provisions**

The Bonds maturing on and after March 1, 2025, shall be subject to redemption at the option of the District, in whole or from time to time in part, on March 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed



shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by a random selection method in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

### **Annexation**

The District lies entirely within the extraterritorial jurisdiction of the City of Crandall, Texas (the "City"). The City operates as a Type A municipality. Under Texas law, the City does not currently have the authority to annex the District without the consent of the landowners, and it is unlikely that the City will gain such authority in the foreseeable future.

### **Consolidation**

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater system of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation, but the District currently has no plans to do so.

### **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 ad valorem taxes, 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.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes. In the Bond Order, the District has specifically reserved the right to call the Bonds for redemption after the defeasance thereof.

## **Issuance of Additional Debt**

The District intends to issue additional bonds from its voted authorization. The District's voters have authorized a total of \$78,000,000 principal amount of unlimited tax refunding bonds for road purposes, \$129,000,000 principal amount of unlimited tax refunding bonds for water, sewer and drainage purposes, \$52,000,000 principal amount of unlimited tax road bonds and \$86,000,000 principal amount of unlimited tax bonds for water, sewer, and drainage. The Bonds are the second series of unlimited tax refunding bonds for road purposes issued by the District. Following the issuance of the Bonds, \$77,472,190 principal amount of unlimited tax refunding bonds for road purposes will remain authorized and unissued. The District also has \$129,000,000 refunding bonds for water, drainage and sewer purposes, \$33,050,000 unlimited tax road bonds and \$86,000,000 unlimited tax bonds for water, sewer, and drainage purposes authorized but unissued. See "THE BONDS – Authority for Issuance." Any bonds issued by the District, however, must be approved by the Attorney General of Texas. Currently, approval of the TCEQ is not necessary for the issuance of bonds issued to finance the acquisition or construction of roads and roadway improvements. However, if the issuance of debt is for the purpose of financing water, sewer or drainage facilities, approval of the TCEQ is required. See "THE DISTRICT – General."

Currently, the District owes the Developer approximately \$8,205,000 for the existing facilities. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

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

## **Amendments to the Bond Order**

The District may, without the consent of or notice to any Registered Owners, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the Registered Owners of all of the Bonds affected, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, change the place or places at, or the coin or currency in which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may, in the exercise of its police power, make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

## **Registered Owners' Remedies**

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. Subject to the holdings of several recent Texas Supreme Court cases discussed below, a registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and

collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

The District is also eligible to seek relief from its creditors under Chapter 9. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. See "INVESTMENT CONSIDERATIONS - Registered Owners' Remedies," and"- Bankruptcy Limitation to Registered Owners' Rights."

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

The enforceability of the rights and remedies of the 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. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decided in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner 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 such Registered Owner's claim against the District.

#### **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.

## **PLAN OF FINANCING**

### **Refunded Bonds**

The proceeds of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$2,245,000 in principal amount (the “Refunded Bonds”) of the District’s \$2,620,000 Unlimited Tax Road Bonds, Series 2010 (the “Series 2010 Bonds”). The refunding of the Refunded Bonds is expected to result in an annual and net present value savings in the District’s current annual debt service requirements.

The principal and interest due on the Refunded Bonds will be paid on April 10, 2018, the redemption date of the Refunded Bonds, from funds to be deposited with the paying agent/registrars for the Refunded Bonds (“the Refunded Bonds Paying Agent”). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter and other available District funds, if any are necessary, the District will deposit with the Refunded Bonds Paying Agent the full cash amount required to pay all amounts coming due on the Refunded Bonds on the redemption date and to accomplish the discharge and final payment of the Refunded Bonds on the redemption date. Such funds will be held by the Refunded Bonds Paying Agent in a trust clearing account pending their disbursement to redeem the Refunded Bonds on the redemption date. By the deposit with the Refunded Bonds Paying Agent in such trust clearing account, the District will have effected the defeasance of the Refunded Bonds in accordance with the applicable law.

Grant Thornton LLP, Minneapolis, Minnesota, Certified Public Accountants (the “Verification Agent”), will verify at the time of delivery of the Bonds to the Underwrites that the funds deposited with the Refunded Bonds Paying Agent will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their respective scheduled redemption date and maturity dates. Such funds deposited with the Refunded Bonds Paying Agent will not be available to pay the debt service on the Bonds (see “VERIFICATION OF ARITHMETICAL CALCULATIONS”).

By the deposit of the cash with the Refunded Bonds Paying Agent pursuant to the Bond Order, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law and in reliance upon the report of the Verification Agent. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bonds will no longer be payable from the ad valorem taxes or revenues, as applicable, pledged as security therefor, but will be payable solely from the cash on deposit and held for such purpose by the Refunded Bonds Paying Agent, and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the District for the purpose of a limitation of indebtedness or for any other purpose. The District has covenanted in the Bond Order to make timely deposits to the Refunded Bonds Paying Agent, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds if for any reason the cash balance on deposit should be insufficient to make such payment

The outstanding principal amounts and maturity dates of the Refunded Bonds are set as forth as follows:

Series 2010 Refunded Bonds

<u>Principal Amount</u>	<u>Maturity Date</u>
\$ 85,000	03/01/20
85,000	03/01/21
90,000	03/01/22
100,000	03/01/23
105,000	03/01/24
110,000	03/01/25
115,000	03/01/26
125,000	03/01/27
130,000	03/01/28
140,000	03/01/29
145,000	03/01/30
155,000	03/01/31
165,000	03/01/32
175,000	03/01/33
***	***
<u>380,000</u>	03/01/35 (a)
\$2,105,000	

Redemption Date: 04/10/18

Aggregate Amount of Bonds Being Refunded.....\$2,105,000

(a) Term Bond with mandatory redemption as follows:

<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Amount Redeemed</u>
\$185,000	03/01/34	\$185,000
<u>195,000</u>	03/01/35	<u>195,000</u>
<u>\$380,000</u>		<u>\$380,000</u>

**Remaining Outstanding Bonds**

After the issuance of the Bonds and the redemption of the Refunded Bonds, the following bonds will remain outstanding (the "Remaining Outstanding Bonds"):

	<u>Original Principal Amount</u>	<u>Principal Currently Outstanding</u>	<u>Less: Refunded Bonds</u>	<u>Remaining Outstanding Bonds</u>
Series 2007 Bonds	\$ 5,250,000	\$ -	\$ -	\$ -
Series 2009 Bonds	3,300,000	-	-	-
Series 2010 Bonds	2,620,000	2,185,000	2,105,000	80,000
Series 2014 Bonds	1,880,000	1,880,000	-	1,880,000
Series 2014 Refunding Bonds	7,355,000	6,240,000	-	6,240,000
Series 2017 Bonds	5,900,000	5,900,000	-	<u>5,900,000</u>
				\$ 14,100,000

**Sources and Uses of Funds**

The proceeds from the sale of the Bonds, together with certain District funds, if any, will be applied as follows:

SOURCES OF FUNDS:	
Principal Amount of Bonds.....	\$2,245,000.00
Net Original Issue Discount.....	(34,986.30)
Excess Debt Service Funds Transfer .....	20,000.00
Accrued Interest on the Bonds .....	<u>1,663.91</u>
Total Sources of Funds .....	\$2,231,677.61
USE OF FUNDS:	
Cash Deposit to Redeem the Refunded Bonds.....	\$2,115,813.30
Deposit of Accrued Interest to Debt Service Fund.....	1,663.91
Issuance Expenses and Underwriter's Discount.....	<u>114,200.40</u>
Total Uses of Funds.....	\$2,231,677.61

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**DISTRICT DEBT**

**General**

The following tables and calculations relate to the Bonds. The District and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be raised by taxation against all or a portion of the property within the District.

2017 Taxable Assessed Valuation.....		\$ 200,946,309 (a)
(100% of taxable value as of January 1, 2017)		
Estimated Valuation as of July 1, 2017 .....		\$ 213,319,844 (b)
(100% of estimated taxable value as of July 1, 2017)		
Direct Debt:		
The Remaining Outstanding Bonds.....		\$ 14,100,000 (c)
The Bonds .....		<u>2,245,000</u>
Total .....		\$ 16,345,000
Estimated Overlapping Debt.....		<u>\$ 25,941,992 (d)</u>
Total Direct and Estimated Overlapping Debt .....		<u>\$ 42,286,992</u>
Ratio of Direct Debt to.....	2017 Taxable Assessed Valuation (\$200,946,309) ...	8.13%
	Estimated Valuation as of 7-1-17 (\$213,319,844) .....	7.66%
Ratio of Direct and Estimated		
Overlapping Debt to.....	2017 Taxable Assessed Valuation (\$200,946,309)....	21.04%
	Estimated Valuation as of 7-1-17 (\$213,319,844) .....	19.82%
Debt Service Fund Balance (as of January 17, 2018) .....		\$ 1,077,553 (e)
General Fund Balance (as of January 17, 2018) .....		\$ 971,332
2017 Tax Rate		
Debt Service.....		\$0.49
Maintenance & Operation.....		<u>0.51</u>
Total.....		<u>\$1.00 (f)</u>
Average Annual Debt Service Requirements (2018-2043).....		\$ 939,862 (g)
Maximum Annual Debt Service Requirements (2029).....		\$ 1,042,188 (g)
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual		
Debt Service Requirements on the Remaining Outstanding Bonds		
and the Bonds (2018-2043) at 95% Tax Collections		
Based Upon 2017 Assessed Valuation (\$200,946,309) .....		\$0.50 (g)
Based Upon Estimated Valuation as 7-1-17 (\$213,319,844).....		\$0.47 (g)
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual		
Debt Service Requirements on the Remaining Outstanding Bonds		
and the Bonds (2029) at 95% Tax Collections		
Based Upon 2017 Assessed Valuation (\$200,946,309) .....		\$0.55 (g)
Based Upon Estimated Valuation as 7-1-17(\$213,319,844).....		\$0.52 (g)
Tax Rate per \$100 of Assessed Valuation Required to Fund Annual Payment to the		
City of Mesquite at 95% Tax Collections		
Based Upon 2017 Assessed Valuation for the Heartland Districts (\$344,758,061) ...		\$0.31 (g)(h)
Single-Family Homes (including 5 homes under construction) as of January 1, 2018.....		1,236

- 
- (a) As certified by the Kaufman County Appraisal District (the "Appraisal District"). This amount includes \$502,786 of uncertified value, which represents 80% of the total uncertified value provided by the Appraisal District which is the estimated minimum amount of the uncertified value that will ultimately be certified. See "TAX DATA" and "TAXING PROCEDURES." Provided by Appraisal District for information purposes only. Reflects the addition of value of new construction within the District from January 1, 2017 to July 1, 2017. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAX DATA" and "TAXING PROCEDURES."
  - (b) See "DISTRICT DEBT - Estimated Overlapping Debt."
  - (c) Includes the Bonds and excludes the Refunded Bonds.
  - (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
  - (e) See "TAX DATA - Tax Rate Distribution."
  - (f) See "DISTRICT DEBT - Debt Service Requirements."
  - (g) See "INVESTMENT CONSIDERATIONS - Obligations to the City of Mesquite" and "TAX DATA."

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### 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 the 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 as of February 28, 2018	Percent	Overlapping Amount
Kaufman County	\$ 62,054,016	2.50%	\$ 1,551,713
Crandall ISD	83,930,725	29.06%	<u>24,390,279</u>
TOTAL ESTIMATED OVERLAPPING DEBT			\$25,941,992
Direct Debt			<u>16,345,000(a)</u>
TOTAL DIRECT & ESTIMATED OVERLAPPING DEBT (b)			<u>\$42,286,992</u>

(a) Includes the Bonds and excludes the Refunded Bonds.

(b) In addition to the Estimated Overlapping Debt, the Heartland Districts are liable to the City of Mesquite for wastewater capacity. See "INVESTMENT CONSIDERATIONS – Obligations to City of Mesquite."

### Debt Ratios

	2017 Taxable Assessed Valuation	July 1, 2017 Estimated Valuation
Direct Debt	8.13%	7.66%
Total Direct and Estimated Overlapping Debt	21.04%	19.82%

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## Debt Service Requirements

The following schedule sets forth the principal and interest requirements on the Remaining Outstanding Bonds, plus the principal and interest requirements for the Bonds.

Year Ending 12/31	Outstanding Road Debt Service	Less: Refunded Debt Service	Plus: The Bonds		Total New Debt Service	Total Debt Service
			Principal	Interest		
2018	\$ 294,087	\$ 49,908	\$ -	\$ 27,732	\$ 27,732	\$ 271,911
2019	1,032,074	99,815	20,000	66,256	86,256	1,018,515
2020	1,037,649	182,265	105,000	64,381	169,381	1,024,765
2021	1,030,849	177,165	105,000	61,756	166,756	1,020,440
2022	1,033,524	176,915	105,000	59,656	164,656	1,021,265
2023	1,041,299	182,215	115,000	57,456	172,456	1,031,540
2024	1,044,224	183,115	120,000	53,906	173,906	1,035,015
2025	1,041,519	183,760	125,000	50,022	175,022	1,032,781
2026	1,045,699	184,090	125,000	46,897	171,897	1,033,506
2027	1,051,334	188,925	135,000	43,400	178,400	1,040,809
2028	1,047,526	188,250	140,000	39,444	179,444	1,038,720
2029	1,054,124	192,105	145,000	35,169	180,169	1,042,188
2030	1,049,158	190,514	150,000	30,744	180,744	1,039,388
2031	1,052,544	193,500	155,000	26,072	181,072	1,040,116
2032	896,551	195,939	165,000	20,969	185,969	886,581
2033	895,911	197,820	170,000	15,419	185,419	883,509
2034	889,281	199,088	180,000	9,513	189,513	879,706
2035	893,628	199,778	185,000	3,238	188,238	882,088
2036	894,169	-	-	-	-	894,169
2037	894,725	-	-	-	-	894,725
2038	898,600	-	-	-	-	898,600
2039	900,681	-	-	-	-	900,681
2040	902,938	-	-	-	-	902,938
2041	905,431	-	-	-	-	905,431
2042	906,375	-	-	-	-	906,375
2043	910,663	-	-	-	-	910,663
	<u>\$24,644,559</u>	<u>\$3,165,165</u>	<u>\$2,245,000</u>	<u>\$ 712,029</u>	<u>\$2,957,029</u>	<u>\$24,436,422</u>

Average Annual Requirements - (2018-2043)..... \$ 939,862

Maximum Annual Requirement - (2029) ..... \$ 1,042,188

## **TAXING PROCEDURES**

Set forth below is a summary of certain provisions of the Texas Property Tax Code relating to the District's ability to levy and collect property taxes on property within the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. Reference is made to the Property Tax Code for more complete information, including the identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under "THE BONDS - Source of Payment." Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and for the payment of certain contractual obligations. The District levied a debt service tax rate of \$0.49 per \$100 of assessed valuation and a maintenance and operation tax rate of \$0.51 per \$100 of assessed valuation for the 2017 tax year. See "TAX DATA- Tax Rate Limitation."

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

The Texas Property Tax Code (the "Property Tax Code"), specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. 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 an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the Appraisal District. The Kaufman County Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Kaufman County, including the District. Such appraisal values will be subject to review and change by the Kaufman County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. 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. In addition, taxing units, such as the District, are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records of the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

Although the District has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Tax Code, the District does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised

values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of future reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

### **Property Subject to Taxation by the District**

**General:** Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: 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; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District.

Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence 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. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Effective as of January 1, 2018, this exemption will also apply 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.

Effective as of January 1, 2018, 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.

**Residential Homestead Exemptions:** The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by May 1. The District has not adopted a general homestead exemption.

**Freeport Goods Exemption and “Goods-in-Transit”:** A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2013 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

Kaufman County may designate all or part of the area within the District as a reinvestment zone. The District, at the option and discretion of the District, and the County may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including 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 the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdiction. None of the area within the District has been designated as a reinvestment zone to date, and the District has not approved any such tax abatement agreements.

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

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural 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 of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser 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 one political subdivision while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes

based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

### **Notice and Hearing Procedures**

The Property Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayers referenda which could result in the repeal of certain tax increases. Effective September 1, 2003, the District was required to publish a notice of a public hearing regarding the tax rate proposed to be levied in the current year and comparing the proposed tax rate to the tax rate set in the preceding year. If the proposed combined debt service, operation and maintenance and contract tax rates imposes a tax more than 1.08 times the amount of tax imposed in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead, disregarding any homestead exemption available to the disabled or persons 65 years of age or older, the qualified voters of the taxing jurisdiction by petition of ten percent of the registered voters in the taxing jurisdiction may require that an election be held to determine whether to reduce the operation and maintenance tax to the rollback tax rate.

### **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 timely petition for review in district court. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

### **Rollback of Operation and Maintenance Tax Rate**

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the District's current year's debt service tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the District in the preceding year on the average residence homestead, disregarding exemptions. The District's debt service tax rate cannot be changed by a rollback election.

### **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. The date of delinquency may be postponed if the tax bills are mailed after January 1. A person over sixty-five (65) years of age is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based on valuation of property within the District as of the preceding January 1.

Taxes are due September 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

### **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year in which the tax is imposed. 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 the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims 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, however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. 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, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchasers deed at the foreclosure sale is filed in the county records.

## TAX DATA

### General

Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, not to exceed \$0.99 per \$100 of assessed valuation, for operation and maintenance purposes. The District levied a debt service tax rate of \$0.49 per \$100 of assessed valuation and a maintenance and operation tax rate of \$0.51 per \$100 of assessed valuation for the 2017 tax year.

### Tax Rate Limitation

Water, Sewer and Drainage Debt Service:	Unlimited (no legal limit as to rate or amount).
Road Debt Service:	Unlimited (no legal limit as to rate or amount).
Contract Tax:	Unlimited (no legal limit as to rate or amount).
Contract Tax Supporting Agreements with Mesquite:	Unlimited (no legal limit as to rate or amount).
Maintenance:	\$1.00 per \$100 Assessed Valuation.

### Historical Tax Collections

The following table illustrates the collection history of the District for the 2012-2017 tax years:

Tax Year	Certified Assessed Valuation	Tax Rate/ \$100 (a)	Adjusted Levy	% of Collections Current Year	Fiscal Year Ending 9/30	% of Collections as of 1/31/2018
2012	133,113,595	1.000	1,331,136	99.82	2013	99.99
2013	139,716,306	1.000	1,397,163	99.72	2014	99.99
2014	153,018,069	1.000	1,530,181	98.91	2015	99.92
2015	164,984,522	1.000	1,649,845	98.95	2016	98.96
2016	181,352,403	1.000	1,813,524	99.58	2016	99.58
2017	200,946,309	1.000	2,012,093	85.70(b)	2017	85.70(b)

(a) Includes a tax for maintenance and operation purposes. See "- Tax Rate Distribution" below.

(b) In process of collection.

## Tax Rate Distribution

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Debt Service	\$0.490	\$0.370	\$0.370	\$0.590	\$0.450	\$0.540
Maintenance	<u>0.510</u>	<u>0.630</u>	<u>0.630</u>	<u>0.410</u>	<u>0.550</u>	<u>0.460</u>
	<u>\$1.000</u>	<u>\$1.000</u>	<u>\$1.000</u>	<u>\$1.000</u>	<u>\$1.000</u>	<u>\$1.000</u>

## Analysis of Tax Base

The following table illustrates the District's total taxable assessed value in the tax years 2013-2017 by type of property.

Type of Property	<u>2017 Assessed Valuation</u>	<u>2016 Assessed Valuation</u>	<u>2015 Assessed Valuation</u>	<u>2014 Assessed Valuation</u>	<u>2013 Assessed Valuation</u>
Land	41,213,702	38,855,312	38,760,312	31,545,505	31,374,455
Improvements	173,966,054	155,343,515	138,355,375	132,633,292	119,037,211
Personal Property	218,370	154,590	144,580	194,320	128,150
Less Exemption	<u>(14,451,817)</u>	<u>(13,001,014)</u>	<u>(12,275,745)</u>	<u>(11,355,048)</u>	<u>(10,823,510)</u>
Total	<u>\$200,946,309</u>	<u>\$181,352,403</u>	<u>\$164,984,522</u>	<u>\$153,018,069</u>	<u>\$139,716,306</u>

## Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2017:

<u>Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation 2017 Tax Roll</u>	<u>Percentage of 2017 Tax Roll</u>
HW Heartland LP (a)	Land & Improvements	\$2,613,240	1.30%
AMH 2014-2 Borrower LLC	Land & Improvements	1,327,950	0.66%
ARP 2014-1 Borrower LLC	Land & Improvements	1,262,790	0.63%
AMH 2015-2 Borrower LLC	Land & Improvements	997,150	0.50%
HMH Lifestyles LP	Land & Improvements	931,650	0.46%
Homeowner	Personal property	793,300	0.39%
American Homes 4 Rent Properties Eight LLC	Land & Improvements	747,100	0.37%
Ermina Real Estate LLC	Land & Improvements	722,652	0.36%
AMH 2014-3 Borrower LLC	Land & Improvements	675,530	0.34%
Bloomfield Homes LP	Land & Improvements	<u>659,850</u>	<u>0.33%</u>
Total		<u>\$10,731,212</u>	<u>5.34%</u>

(a) See "DEVELOPER" and "INVESTMENT CONSIDERATIONS – Economic Factors Affecting Taxable Values and Tax Payments."



## Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2017 Taxable Assessed Valuation (\$200,946,309) or the Estimated Valuation as of July 1, 2017 (\$213,319,844). The foregoing further excludes debt service on the Refunded Bonds, assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2018-2043).....	\$ 939,862
Tax Rate of \$0.50 on the 2017 Taxable Assessed Valuation at 95% collection produces .....	\$ 954,495
Tax Rate of \$0.47 on the July 1, 2017 Estimated Valuation at 95% collection produces .....	\$ 952,473
Maximum Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2029).....	\$ 1,042,188
Tax Rate of \$0.55 on the 2017 Taxable Assessed Valuation at 95% collection produces .....	\$ 1,049,944
Tax Rate of \$0.52 on the July 1, 2017 Estimated Valuation at 95% collection produces .....	\$ 1,053,800

## 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 a 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 Direct and 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 2017 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.

<u>Taxing Jurisdiction</u>	<u>2017 Tax Rate/ Per \$100 of A.V.</u>
The District	\$1.000000
Kaufman County	0.488700
Crandall Independent School District	1.540000
Kaufman County Road and Bridge	0.100000
Kaufman County Emergency Service District No. 7	0.080000
Trinity Valley Community College District	<u>0.138540</u>
Estimated Total Tax Rate	<u>\$3.347240</u>

## THE DISTRICT

### General

The District is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District was created by House Bill No. 3622 passed by the 78th Texas Legislature, Regular Session, 2003 and originally named Kingsborough Municipal Utility District No. 1. The District is vested with all the rights, privileges, authority, and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. In addition, the District is authorized to purchase, construct, operate, and maintain roads. The District is also authorized 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; the control and diversion of stormwater. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ.

### Description

The District is located in central Kaufman County, approximately 18 miles east of the City of Dallas; approximately 8 miles east of the City of Mesquite; and approximately 2 miles north of the City of Crandall. It is bordered on the north by Interstate 20, on the south by FM 2757 and is adjacent to FM 741. The District is located wholly within the extraterritorial jurisdiction of the City of Crandall and wholly within Crandall Independent School District. The District is located wholly within the approximately 2,300 acre master-planned community known as "Heartland."

### Management of the District

The District is governed by a board of five directors which has control over and management supervision of all affairs of the District. Directors are elected in even-numbered years for four-year staggered terms. The present members and officers of the Board are listed below:

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Austin Young	President	2020
Gregg E. Gibb	Vice President	2018
Jan Echard	Secretary	2018
R. C. Williams	Assistant Secretary	2020
Joe Tucker	Assistant Secretary	2020

The District has contracted with following companies and individuals to operate its utilities and recreational facilities:

Tax Assessor/Collector – The District's Tax Assessor/Collector is the Kaufman County Tax Office.

Bookkeeper – The District contracts with L&S District Services, LLC, for bookkeeping services.

Utility System Operator – The District's operator is Severn Trent Services.

Auditor – As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. A copy of the District's audit prepared by McCall Gibson Swedlund Barfoot PLLC for the fiscal year ended September 30, 2017, is included as "APPENDIX A" to this Official Statement.

Engineer – The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Petitt & Barraza LLC (the "Engineer").

Bond Counsel – The District employs Coats Rose, P.C., Dallas, Texas, as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Coats Rose, P.C. also acts as general counsel for the District.

Financial Advisor – The District has engaged the firm of Robert W. Baird & Co. Incorporated as financial advisor to the District. Payment to the Financial Advisor by the District is contingent upon the issuance, 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.

Special Consultant Related to Issuance of the Bonds

Verification Agent – At the time of delivery of the Bonds, Grant Thornton LLP, Certified Public Accountants, will verify to the District, Bond Counsel and the Underwriter certain matters related to the issuance of the bonds and the refunding of the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

**DEVELOPMENT STATUS OF THE DISTRICT**

Of the approximately 454 acres of land located within the District, approximately 291 acres within the District have been developed with water distribution, sanitary sewer and storm drainage and road facilities to serve the single-family residential subdivisions of Heartland, Phases/Parcels 1A, 1B, 2A, 2B, 2C, 3A, 3B and 4A consisting of 1,246 lots. As of January 1, 2018, the District was comprised of 1,207 completed and occupied homes; 24 completed and unoccupied homes; 5 homes under construction; and 10 vacant, developed lots. The remaining acreage within the District is comprised of approximately 76 undeveloped but developable acres and 87 undevelopable acres.

The table below summarizes the development within the District as of January 1, 2018 by section.

	Approximate Acreage	Lots	Homes		Vacant Developed Lots
			Completed	Under Construction	
Heartland, Phase 1A	53	238	238	-0-	-0-
Heartland, Phase 1B	36	102	102	-0-	-0-
Heartland, Phase 2A	41	212	212	-0-	-0-
Heartland, Phase 2B	43	91	91	-0-	-0-
Heartland, Phase 2C	7	41	41	-0-	-0-
Heartland, Phase 3A	77	372	362	-0-	10
Heartland, Phase 3B	20	111	111	-0-	-0-
Heartland, Phase 4A	<u>14</u>	<u>79</u>	<u>74</u>	<u>5</u>	<u>-0-</u>
Totals	291	1,246	1,231	5	10
Remaining Undeveloped but Developable Acres	76				
Undevelopable Acres	<u>87</u>				
Total	<u>454</u>				

Homebuilders active within the District include History Maker Homes, Highland Homes, Impression Homes, Bloomfield Homes and Lennar Homes. Home prices range from \$205,000 to \$300,000 and 1,360 to 3,000 in square footage.

**HEARTLAND**

Heartland is an approximately 2,300 acre master-planned community located 18 miles east of downtown Dallas, 8 miles east of Mesquite and 2 miles north of the City. Heartland is bounded by US Interstate 20 on the north, FM 2757 on the south and FM 741 is adjacent to the project.

There are 560 acres fully developed in Heartland. As of January 1, 2018, development within Heartland included 2,425 completed lots, 573 lots currently under development, 2,034 completed homes, 204 homes under construction and 187 vacant, developed lots. Heartland contains approximately 1,450 undeveloped but developable acres, approximately 147 acres of commercial reserves and approximately 143 undevelopable acres.

All of the land in Heartland is located within one of five municipal utility districts created through the Texas Legislature to serve Heartland: Kaufman County Municipal Utility District Nos. 9 through 12 and 14 (originally named Kingsborough Municipal Utility District Nos. 2 through 5 and 1, respectively). Virtually all of the development in Heartland has occurred either within the District or Kaufman County Municipal Utility District No. 11.

Homebuilders active within Heartland include: History Maker Homes, Highland Homes, Impression Homes, Bloomfield Homes and Lennar Homes. Home prices range from \$190,000 to \$360,000 and 1,360 to 4,000 in square footage. Homebuilding began in Heartland in April, 2006 and approximately 1,194 homes were constructed between 2006 and 2010, approximately 94 homes were constructed in 2011, approximately 100 homes were constructed in 2012, approximately 59 homes were constructed in 2013, approximately 20 homes were constructed in 2014, approximately 99 homes were constructed in 2015, approximately 211 homes were constructed in 2016 and approximately 117 homes were constructed in 2017.

*[Remainder of Page Intentionally Left Blank]*

**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT  
(taken August, 2017)**





**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT  
(taken August, 2017)**



## **DEVELOPER**

### **The Role of a Developer**

In general, the activities of a developer in a municipal utility district, such as the District, include the following: acquiring the land within the district, designing the subdivision, the utilities and streets to be constructed in the subdivision, and any community facilities to be built; defining a marketing program and building schedule; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling improved lots and commercial reserves to builders and other developers or other third parties. Pursuant to the rules of the TCEQ, a developer can be required to pay up to 30% of the cost of constructing certain water, wastewater and drainage facilities in a municipal utility district. The relative success or failure of a developer to perform such activities in the development of property within a municipal utility district may have a profound effect on the security of the bonds issued by a district. A developer is generally under no obligation to a municipal utility district to develop the property that it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a municipal utility district.

### **The Developer**

The principal developer of land within the District is UST-Heartland, L.P. ("UST" or the "Developer"). UST was formerly known as HW Heartland, L.P.

UST Heartland GP, LLC, a Texas limited liability company ("Heartland GP"), is the sole general partner of UST. UST Subpartnership II, L.P., a Delaware limited partnership ("USTII"), is the sole limited partner of UST. Each of UST II and Heartland GP are wholly owned subsidiaries of UST Joint Venture Opportunity I, L.P., a Delaware limited partnership ("UST JV"), formed to invest in industrial, commercial, residential, office, hotel, hospital, medical, sports arena, mixed use, condominium, timeshare, golf course, and recreation properties throughout the United States. The Developer is managed by UST Opportunity Corporation, a company owned by Lothar Estein who has over 35 years' experience in US real estate investment. UST currently owns approximately 76 developable acres and 14 vacant developed lots in the District, as well as virtually all the vacant land in the remainder of Heartland.

### **Development Financing**

The Developer refinanced the loan it obtained to finance the acquisition and development of land within the District with a loan from Preston Hollow Capital, LLC, dated May 28, 2015, in the original amount of \$11,000,000 with an interest rate of 8.75%. The loan was increased to a maximum amount of \$15,000,000 by a modification on May 3, 2017. Such loan matures on May 28, 2018, and is secured by the land and the reimbursements to the Developer from bond proceeds of the Heartland Districts. As of January 31, 2018, the balance on such loan was \$7,187,832. According to the Developer, it is in compliance with all material terms of such loan.

### **Lot Sales Contracts**

The Developer has entered into lot sales contracts with each of Lennar Homes, History Maker Homes, Bloomfield Homes, Horizon Homes and Impression Homes. The contracts for the sale of lots between UST and the builders require that earnest money be deposited with a title company and establish certain required purchases quarterly. UST's sole remedy for homebuilders not purchasing lots in accordance with the contracts is cancellation of the contract and retention of the earnest money on deposit.

According to the Developer each of the homebuilders is in compliance, in all material respects, with their respective lots sale contracts.

### **Development Manager**

In July, 2013, UST engaged Huffines Management Partners, L.P. (d/b/a "Huffines Communities"), to perform management services related to the development of property within Heartland. Huffines Communities is in the business of managing and developing real property, including residential communities. Since its inception in 1985, Huffines Communities has owned, or has developed or entitled for development, over 15,000 residential lots. Among its "signature" communities are: Waterview in Rowlett, Texas; Providence in Providence, Texas; Savannah in Savannah, Texas; and Inspiration in Collin County, Texas. Huffines Communities also has significant experience as the developer of master planned communities located within special districts in Texas similar to the District, having been involved with more than ten special districts in

the state. There is no assurance that Huffines Communities will continue to be the manager for the development of the property, as UST and Huffines Communities have the right, upon prior notice to the other and for certain other reasons, to terminate the management services agreement between them. Huffines Communities has no ownership in Heartland or UST.

## **THE SYSTEM**

### **Regulation**

According to the Engineer, the water distribution, wastewater collection and stormwater drainage facilities and roads constructed by the District (the "System") have 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, the City, and Kaufman County. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies and, the water and sanitary sewer system has been inspected by the TCEQ.

Operation of the District's waterworks and sewer treatment facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

### **Description of the System**

#### **- Roads -**

Construction of the roads within the boundaries of the District has been financed with funds advanced by the Developer. The proceeds from the sale of the Bonds will be used to reimburse the Developer for road improvements for all of the existing phases within the District. Roadways within the District are constructed of reinforced concrete with curbs on lime-stabilized subgrade. Roads vary in width, but are sized to accommodate the anticipated traffic demands of full build-out of the project.

#### **- Wastewater Treatment and Conveyance System -**

The City of Mesquite is the wholesale sewer provider to Heartland. The City of Mesquite, in turn, has contracted with the North Texas Municipal Water District ("NTMWD") for service from NTMWD's regional wastewater treatment plant. NTMWD has completed construction of a regional sewer line called Lower East Fork Interceptor System ("LEFIS") along Mustang Creek southwest of Heartland that will serve all of Heartland as well as other future development in the Mustang Creek basin. See "Wholesale Water Supply and Wastewater Treatment Agreements with City of Mesquite" below.

#### **- Water Supply and Distribution -**

The City of Mesquite is the wholesale water provider to Heartland. The contract provides that it will provide adequate water supply for all of Heartland, including approximately 8,000 residential units, schools, commercial, civic and other associated uses. There is an existing 24-inch water line from Mesquite to the Heartland pump station on the north side of I-20. This water line has the capacity to serve approximately 4,000 homes. A second large transmission line (approximately 30-inches) will be constructed by the NTMWD in the future to provide the additional supply required to serve all of Heartland, as well as other development in the area. The existing pump station currently has the capacity to serve approximately 2,750 occupied homes. Additional expansions will take place with future phases to provide adequate water supply to the development.

#### **- Drainage -**

Stormwater runoff from Heartland discharges into two major creeks, Buffalo Creek to the east and Mustang Creek to the west. There are numerous small tributaries to these creeks that convey runoff from developed areas. The master development plan for Heartland indicates that these tributaries will be preserved in their natural state.

There is also a large Natural Resource Conservation Service flood control dam at the northeast corner of Heartland. The reservoir has a capacity of approximately 200 acre-feet. The dam and spillway were originally constructed during the 1950's. These facilities were reconstructed and brought up to current design standards in 2005.



- Agreement Regarding Wholesale Treated Water Service -

Effective August 27, 2004, the then developer of Heartland entered into an Agreement Regarding Wholesale Treated Water Service with the City of Mesquite. Each of the Heartland Districts has been added as a party to such agreement. Pursuant to such agreement, the City of Mesquite agrees to provide water necessary for the full development of the Heartland Districts, contingent upon the City being able to purchase water from the North Texas Municipal Water District. The Heartland Districts pay the bulk rate per 1,000 gallons that Mesquite is charged for purchasing treated water from NTMWD plus 40% per 1,000 gallons. Based upon the City of Mesquite's existing contracts, Mesquite has sufficient water supply to serve all the existing lots within Heartland as well as the additional development underway.

- Agreement Regarding Wholesale Wastewater Treatment Service -

Effective August 27, 2004, the then developer of Heartland entered into an Agreement Regarding Wholesale Wastewater Treatment Service with the City of Mesquite. Each of the Heartland Districts has been added as a party to such agreement. Pursuant to such agreement, the City of Mesquite agrees to provide wastewater treatment capacity necessary for the full development of the Heartland Districts, contingent upon the City being able to purchase wastewater treatment capacity from the NTMWD. The Heartland Districts pay the bulk rate per 1,000 gallons that Mesquite is charged for purchasing wastewater treatment services from North Texas Municipal Water District plus 40% per 1,000 gallons. Based upon the City of Mesquite's existing contracts, Mesquite has sufficient wastewater treatment capacity to serve all the existing lots within Heartland as well as the additional development underway.

- Master District -

On March 7, 2005, the District executed a "Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer and Drainage Facilities" ("Master District Contract") with Kaufman County Municipal Utility District No. 12 ("Master District") relating to the following facilities and services: the Master District wastewater collection system, the Master District water distribution system, the water supply system and the off-site wastewater transportation system (collectively, the "Master District Facilities"). The Master District Contract was approved by the voters of the District at an election held on May 7, 2005. Similar contracts have been executed between the Master District and the other Heartland Districts. The Master District Contract provides that the District and all other Heartland Districts that have executed similar contracts with the Master District pay a pro rata share of debt service on contract revenue bonds issued by the Master District ("Contract Revenue Bonds") to finance the Master District Facilities based upon certified appraised valuation. The District is obligated to pay its pro rata share from the proceeds of the Contract Tax for such purpose, or from any other legally available funds of the District. The Master District Contract also provides for operation and maintenance expenses for facilities constructed pursuant to the Master District Contract; duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; insurance; and other provisions.

The Master District has not yet issued any Contract Revenue Bonds. The Master District is authorized to issue Contract Revenue Bonds sufficient to complete acquisition and construction of the Master District Facilities. The District's pro rata share (and that of all other Heartland Districts) of the debt service requirements on the Contract Revenue Bonds is determined by dividing the District's certified gross appraised value by the cumulative total of the certified gross appraised values of all the Heartland Districts which are parties to the Master District Contract. The Master District Contract obligates the District to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of the Contract Tax, revenues derived from the operation of the District's water distribution and wastewater collection system or from any other legally available funds of the District. See "INVESTMENT CONSIDERATIONS - Obligations to City of Mesquite."

Each Heartland District is responsible for constructing its internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. The internal facilities are financed with unlimited ad valorem tax bonds sold by each district. The Master District Facilities will be constructed in stages to meet the needs of a continually expanding population within Heartland. In the event that the Master District fails to meet its obligations under the Master District Contract to provide Master District Facilities, each of the other Heartland Districts has the right pursuant to its Master District Contract to design, acquire, construct, or expand the Master District Facilities needed to provide service to such district, and convey such Master District Facilities to the Master District in consideration of payment by the Master District of the actual capital costs expended by such district for such Master District Facilities.

The District is further obligated to pay monthly charges for water and sewer services rendered pursuant to the Master District Contract. The monthly charges will be used to pay the District's share of operation and maintenance expenses of the Master District Facilities and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. The District's share of operation and maintenance expenses and reserve requirements is determined by dividing the total number of equivalent single family residential connections ("ESFCs") for all of the Heartland Districts within the service area by the number of ESFCs for the District, as of the first day of each month. The District's monthly payment for operation and maintenance expenses is calculated by multiplying the District's pro rata share by the actual operation and maintenance expenses of the Master District.

Pursuant to the Master District Contract, the District is obligated to establish and maintain rates, fees and charges for services provided by the District's water distribution system and wastewater collection system, together with taxes levied and funds received from any other lawful sources, sufficient at all times to pay the District's operation and maintenance expenses, and the District's obligations pursuant to the Master District Contract, including the District's pro rata share of the Master District's debt service requirements and monthly charges. All sums payable by the District pursuant to the Master District Contract are to be paid by the District without set off, counterclaim, abatement, suspension or diminution. If the District fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master District's Facilities by the District in addition to the Master District's other remedies. As a practical matter, the District has no alternative provider of these services rendered under the Master District Contract.

### Historical Operations of the System

The following is a summary of the District's Operating Fund for the last 5 years. The figures for the fiscal years ending September 30, 2013 through September 30, 2017, were obtained from the District's annual financial reports, reference to which is hereby made. The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

	<b>Fiscal Year Ended September 30,</b>				
<b>Revenues</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Property Taxes	\$966,883	\$1,027,304	\$627,384	\$766,609	\$612,049
Water Service	837,245	834,874	768,961	691,859	660,429
Sewer Service	489,122	506,875	465,028	455,519	456,805
Garbage Service	163,823	162,131	159,492	156,521	149,208
Penalty and Interest	50,599	52,589	50,625	50,174	44,586
Tap Connection and Inspection Fees	281,625	3,375	39,347	35,045	117,365
Investment Revenues	-	-	-	1,526	2,253
Other Income	71,937	62,787	59,697	47,186	45,434
<b>Total</b>	<b>\$2,861,234</b>	<b>\$2,649,935</b>	<b>\$2,170,534</b>	<b>\$2,204,439</b>	<b>\$2,088,129</b>
<b>Expenditures</b>					
Professional Fees	\$30,212	\$21,976	\$35,374	\$38,531	\$28,917
Contracted Services	243,529	244,147	237,924	224,398	206,240
Purchased Master District Services	1,989,097	2,028,467	2,080,671	2,014,033	1,956,091
Repairs and Maintenance	393,879	202,235	118,760	94,126	1,979
Depreciation, Note 6	-	-	-	-	40,708
Other	123,256	62,288	66,049	52,013	59,344
<b>Total</b>	<b>\$2,779,973</b>	<b>\$2,559,113</b>	<b>\$2,538,778</b>	<b>\$2,423,101</b>	<b>\$2,293,279</b>
<b>NET REVENUES (Deficit)</b>	<b>\$81,261</b>	<b>\$90,822</b>	<b>(\$368,244)</b>	<b>(\$218,662)</b>	<b>(\$205,150)</b>
Other financing sources (uses)	-	56,250	-	-	-
Beginning fund balance	275,319	128,247	496,491	715,153	920,303
Ending fund balance	<b>\$356,580</b>	<b>\$275,319</b>	<b>\$128,247</b>	<b>\$496,491</b>	<b>\$715,153</b>

## INVESTMENT CONSIDERATIONS

### General

The Bonds are obligations of the District and are not obligations of the State of Texas, Kaufman County, Texas, the City of Crandall, Texas, or any political subdivision other than the District. The Bonds are secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS - Source of 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 housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

### Economic Factors Affecting Taxable Values and Tax Payments

The rate of development within the District is directly related to the vitality of the single-family housing market in the Dallas and Mesquite metropolitan areas, particularly in the price range (\$205,000 to \$300,000) of homes in the District. New single-family residential construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of single-family residential construction would restrict the growth of property values in the District. Although 1,231 single-family homes are either completed or under construction within the District, the District cannot predict the pace or magnitude of any future development in the District. See "DEVELOPMENT STATUS OF THE DISTRICT."

***Developer's Obligations to the District:*** There is no commitment by or legal requirement of the Developer (hereinafter defined), 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 home builder to proceed at any particular pace with the construction of homes 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 profitability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See "DEVELOPMENT STATUS OF THE DISTRICT," and "DEVELOPER."

***Dependence on Major Taxpayers and the Developer:*** The ten principal taxpayers represent \$10,731,212 or 5.34% of the 2017 Taxable Assessed Valuation, which represents ownership as of January 1, 2017. The Developer (hereinafter defined) represents \$2,613,240 or 1.30% of such value. If these or other principal taxpayers were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds would be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its debt service fund. See "Tax Collections and Foreclosure Remedies" in this section, "TAX DATA - Principal Taxpayers" and "TAXING PROCEDURES - Levy and Collection of Taxes."

***Maximum Impact on District Tax Rate:*** Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2017 Assessed Valuation of property within the District (see "SELECTED FINANCIAL INFORMATION"), is \$200,946,309 and the July 1, 2017 Estimated Valuation is \$213,319,844. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,042,188 (2029) and the average annual debt service requirement will be \$939,862 (2018 through 2043, inclusive). Assuming no increase or decrease from the 2017 Assessed Valuation, tax rates of \$0.55 and \$0.50 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirements and the average annual debt service requirements, respectively (see "DISTRICT DEBT - Debt Service Requirements"). Assuming no increase to nor decrease from the July 1, 2017 Estimated Valuation, tax rates of \$0.52 and \$0.47 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 on the

Bonds, respectively. The District levied a tax rate of \$0.49 per \$100 of assessed valuation for debt service purposes and a tax rate of \$0.51 per \$100 of assessed valuation for maintenance purposes for the 2017 tax year.

### **Tax Collections and Foreclosure Remedies**

The District's ability to make debt service payments may be adversely affected by difficulties in collecting 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 judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures; (b) a bankruptcy court's stay of tax collection proceedings against a taxpayer; or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property.

Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "TAX DATA--Estimated Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property after foreclosure). 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 assessed against such taxpayer.

### **Registered Owners' Remedies**

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. Subject to the holdings of several recent Texas Supreme Court cases discussed below, a registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are

qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. See "THE BONDS - Registered Owners' Remedies."

### **Future Debt**

Following the issuance of the Bonds, the District will have \$77,472,190 principal amount of unlimited tax refunding bonds for road purposes; \$129,000,000 principal amount of unlimited tax refunding bonds for water, sewer and drainage purposes; \$33,050,000 principal amount of unlimited tax road bonds; and \$86,000,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring water, sewer and drainage facilities authorized but unissued. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds. See "DEVELOPMENT STATUS OF THE DISTRICT."

Currently, the District owes the Developer approximately \$8,205,000 for the existing facilities. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See "THE BONDS - Issuance of Additional Debt."

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the Engineer (hereinafter defined), following the issuance of the Bonds, the remaining principal amount of authorized but unissued bonds will be sufficient to fully reimburse the Developer for the existing facilities and finance the water, sewer and drainage facilities and roads necessary to serve the remaining undeveloped but developable land within the District.

The District is part of the approximately 2,300 acre master-planned community of "Heartland." Heartland is comprised of the District, Kaufman County Municipal Utility District No. 9 ("KCMUD No. 9"), Kaufman County Municipal Utility District No. 10 ("KCMUD No. 10"), Kaufman County Municipal Utility District No. 12 ("KCMUD No. 12") and Kaufman County Municipal Utility District No. 14 ("KCMUD No. 14"), collectively referred to as the "Heartland Districts". See "HEARTLAND."

The District has entered into a "Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer and Drainage Facilities" with Kaufman County Municipal Utility District No. 12 ("Master District") pursuant to which the Master District will provide the regional water, sanitary sewer and drainage facilities and capacities ("Master District Facilities") and each Heartland District will pay its pro-rata share of such cost. From time to time, the Master District will issue its contract revenue bonds and each Heartland District will pay a portion of the debt service thereon based upon the amount of ad valorem tax base located within its boundaries.

Currently, the Master District owes the Developer approximately \$12,160,000 for the Master District Facilities. The Master District has no immediate plans to issue any bonds and anticipates issuing its bonds when the projected contract tax necessary to amortize such bonds when combined with the other ad valorem taxes then being levied by each Heartland District does not exceed \$1.00 per \$100 valuation. See "THE SYSTEM."

Bonds issued by the District and the Master District for water, sewer, and drainage facilities are subject to prior approval by the Texas Commission on Environmental Quality (the "TCEQ"). Such agency has in place certain "economic feasibility rules" which for districts located in Kaufman County limit the amount of bonds which can be issued to an amount that can be amortized with a tax rate not exceeding \$1.00 per \$100 valuation, including all other obligations of the issuer secured by ad valorem taxes. Bonds to be issued by the District for roads currently are not subject to such "economic feasibility rules" but are subject to a "no growth tax rate limitation" of \$2.50 per \$100 valuation imposed by the Office of the Attorney General of Texas. See "SELECTED FINANCIAL INFORMATION."

## **Future and Proposed Legislation**

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

## **Competitive Nature of Dallas Residential Market**

The housing industry in the Dallas area is very competitive, and the District can give no assurance that the building programs which are planned by the Developer will be continued or completed. The respective competitive positions of the Developer and any of the homebuilders are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

## **Obligations to City of Mesquite**

The Master District (and each of the Heartland Districts) has entered into an "Agreement Regarding Wholesale Treated Water Service" and an "Agreement Regarding Wholesale Wastewater Treatment Service" with the City of Mesquite. Pursuant to such agreements, the City of Mesquite currently provides wholesale water supply and wastewater treatment services to the Master District. See "THE SYSTEM." In turn, the City of Mesquite has entered into a contract with the North Texas Municipal Water District ("NTMWD"), a regional provider of wholesale water and wastewater services for areas located southeast, east and northeast of the City of Dallas, pursuant to which NTMWD provides wholesale water and wastewater service to the City of Mesquite and its retail and wholesale customers.

Water trunk lines connecting the existing development within Heartland to the City of Mesquite waterlines have been constructed with monies advanced by the Developer. In 2006, NTMWD sold bonds and has constructed a wastewater interceptor to the vicinity of Heartland to serve the Heartland Districts and other customers located in the vicinity of the City of Mesquite and the City of Seagoville. Each entity entitled to receive wastewater service through such interceptor is obligated to pay the debt service on such bonds. Currently, the Heartland Districts (through their contract with the City of Mesquite) are obligated to pay approximately 78.21% of the debt service on such line. The City of Seagoville is paying the remaining annual debt service payments. To the extent that the City of Mesquite serves other wholesale customers, such customers are expected to pay a portion of the debt service currently being paid by the Heartland Districts. For the fiscal year ending September 30, 2017, the debt service on such line paid by the Heartland Districts was \$1,027,015. Such payments are being made monthly by the Master District on behalf of the Heartland Districts with operating revenues of the internal districts and funds advanced by the Developer. Such obligation is further secured by the unlimited ad valorem taxing authority of the Heartland Districts. The Master District is current with all payment obligations. The 2017 Assessed Taxable Valuation of land located within the Heartland Districts is \$344,758,061.

IN THE EVENT THE INTERNAL DISTRICTS AND THE DEVELOPER FAIL TO ADVANCE MONIES TO THE MASTER DISTRICT TO MAKE SUCH PAYMENTS, IN ORDER TO MAKE SUCH PAYMENT THE HEARTLAND DISTRICTS WOULD NEED TO LEVY A TAX OF \$0.31 PER \$100 VALUATION BASED UPON THE 2017 ASSESSED TAXABLE VALUATION. SUCH TAX WOULD BE IN ADDITION TO THE TAX LEVIED TO PAY THE BONDS. A SIGNIFICANT PORTION OF THE AD VALOREM TAX BASE LOCATED WITHIN THE HEARTLAND DISTRICTS IS OWNED BY THE DEVELOPER. SEE "TAX DATA."

## **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 - Collection."

## Environmental Regulation

Wastewater treatment, water supply, storm sewer facilities and construction activities within the District are subject to complex environmental laws and regulations at the federal, state and local levels that may require or prohibit certain activities that affect the environment, such as:

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties; or
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

***Water Supply & Discharge Issues.*** Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) stormwater discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. The TPDES Construction General Permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district’s ability to obtain and maintain TPDES permits.

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On October 9, 2015, the United States Court of Appeals for the Sixth Circuit (“Sixth Circuit”) put the CWR on hold nationwide. On June 27, 2017, the EPA and the USACE released a proposed rule rescinding the CWR and reinstating language in place before 2015 changes which broadened the EPA’s jurisdiction. The proposed rule will be published in the Federal Register and is then subject to a 30-day public comment period prior to final publication. If the CWR is not rescinded, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.”

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on December 13, 2013. The MS4 Permit authorizes the discharge of stormwater to surface

water in the state from small municipal separate storm sewer systems (“MS4s”). The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit. The renewed permit contains requirements concerning the pollutant of concern for discharges to impaired water bodies. MS4s who are subject to the renewed MS4 Permit had to apply for authorization under the renewed MS4 Permit by June 11, 2014. The District did apply for and receive permit coverage under TXR040000. It is anticipated that the District could incur additional costs to develop and implement the required stormwater management plan as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the renewed MS4 Permit.

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

### **Marketability of the Bonds**

The District has no understanding with the winning bidder for the Bonds (the “Underwriter”) regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price 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.

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

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. The rights and remedies of the Registered Owners (hereinafter defined) could be adjusted in accordance with the confirmed plan of adjustment of the District’s debt.

### **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. TCEQ approval of the Bonds is not required and, therefore, no engineering report or bond application has been submitted to the TCEQ and neither the Bonds, the project, nor the feasibility of the District will be reviewed, considered or approved by the TCEQ.

### **Future and Proposed Legislation**

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending, or future legislation.

### **Potential Impact of Natural Disaster**

The District could be impacted by a natural disaster such as wide-spread fires, earthquakes or weather events such as hurricanes, tornados, tropical storms, or other severe weather event that could produce high winds, heavy rains, hail and flooding. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District’s tax rates. See “TAXING PROCEDURES – Valuation of Property for Taxation.”



There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District would be adversely affected. There can be no assurance the District will not sustain damage from such natural disasters.

### **Bond Insurance Risk Factors**

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The District has yet to determine whether an insurance policy will be purchased with the Bonds. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the 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 District which is recovered by the District 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 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 AND RATING."

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 or the Underwriter (hereinafter defined) 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 AND RATING" 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.

## LEGAL MATTERS

### Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from an annual ad valorem tax levied without limit as to rate or amount upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Bond Counsel that, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. The legal opinion will further state that the interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under "TAX EXEMPTION." The legal opinion of Bond Counsel will be printed on the Bonds, if certificated Bonds are issued. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Underwriter's Counsel.

In addition to serving as Bond Counsel, Coats Rose, P.C., also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid Bond Counsel and Disclosure 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.

### No-Litigation Certificate

The District will furnish the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature is then pending against or, to the best knowledge and belief of the certifying officers, threatened against the District contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority of 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 titles of the then present officers of the Board.

### No Material Adverse Change

The obligations of the Underwriter 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 condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

## TAX MATTERS

### Opinion

On the date of initial delivery of the Bonds, Coats Rose, P.C., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions 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 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the

District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

#### **Federal Income Tax Accounting Treatment of Original Issue Discount**

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering 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 accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation. Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **State, Local and Foreign Taxes**

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

### **QUALIFIED TAX-EXEMPT OBLIGATIONS**

Section 265 of the Code provides, in general, that interest expense incurred to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner thereof. In addition, interest expense incurred by certain owners that are “financial institutions” within the meaning of such section and which is allocable to tax-exempt obligations acquired after August 7, 1986, is completely disallowed as a deduction for taxable years beginning after December 31, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions and allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the District, as “qualified tax-exempt obligations.” An issue may be designated as “qualified tax-exempt obligations” only where the amount of such issue, when added to all other tax-exempt obligations (other than private activity bonds) issued or

reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has, pursuant to the Bond Order, designated the Bonds as “qualified tax-exempt obligations” and certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions that purchase the Bonds will not be subject to the 100 percent disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, 20 percent of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds would not be deductible pursuant to Section 291 of the Code.

#### **VERIFICATION OF MATHEMATICAL CALCULATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the District relating to (a) certain available funds (if any) to pay, when due, the principal or redemption price of and interest on the Refunded Bonds and (b) the computation of the yields on the Bonds was verified by Grant Thornton LLP. The computations were independently verified by Grant Thornton LLP, Certified Public Accountants, based upon certain assumptions and information supplied by the Underwriter on behalf of the District, and the District. Grant Thornton LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

#### **CONTINUING DISCLOSURE OF INFORMATION**

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

##### **Annual Reports**

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

The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings “DISTRICT DEBT” (excluding the subsection titled “Estimated Overlapping Debt Statement”), “TAX DATA,” and “APPENDIX A.”

The District will update and provide this information via EMMA within six months after the end of each of its fiscal years. 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 MSRD within such six month period, and audited financial statements when the audit report becomes available.

The District's fiscal year end is currently September 30. Accordingly, it must provide updated information by March 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify EMMA 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 Rule 15c2-12 of the United States Securities and Exchange Commission (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 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 Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the 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**

During the last five years, the District has complied in all material respects with all continuing disclosure undertakings made by it in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule").

## OFFICIAL STATEMENT

### General

The information contained in this Official Statement has been obtained primarily from the District's records, the District Engineer, the Developers, the Tax Assessor/Collector, the Auditor, information publicly available from the Kaufman County Appraisal District and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included 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.

The District's audited financial statements for the year ended September 30, 2017, were prepared by McCall Gibson Swedlund Barfoot PLLC, and have been included herein as "APPENDIX A." McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Preliminary Official Statement.

### Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

### Experts

The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the section captioned "DEVELOPER," "HEARTLAND," and "STATUS OF DEVELOPMENT" has been provided by the Developer and has been included herein in reliance upon the authority and knowledge of each such party concerning the matters described therein.

The information contained in this Official Statement relating to the District's financial statements, in particular, the information in APPENDIX A, has been provided by the Auditor and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

The information contained in this Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE DISTRICT" and "THE 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.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned "TAX DATA" has been provided by the District's Tax Assessor/Collector and from information publicly available from the Kaufman County Appraisal District, and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

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

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriter a certificate, executed by the President and Secretary of the Board of Directors of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data, contained in this Official Statement, of or pertaining to entities other than the District, such statements and data have been obtained from sources which the District believes to be reliable, and the District has no reason to believe that they are untrue in any material respect.

### **Updating the Official Statement**

If, subsequent to the date of the Official Statement to and including the date the Underwriter is no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Underwriter of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Underwriter a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Underwriter. The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Underwriter (the "end of the underwriting period" within the meaning of the Rule), unless the Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Underwriter agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

### **CONCLUDING STATEMENT**

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Kaufman County Municipal Utility District No. 11 as of the date specified on the first page hereof.

/s/ Austin Young  
President, Board of Directors  
Kaufman County Municipal Utility District No. 11

ATTEST:

/s/ Jan Echard  
Secretary, Board of Directors  
Kaufman County Municipal Utility District No. 11



**APPENDIX A**  
**FINANCIAL STATEMENTS OF THE DISTRICT**

**KAUFMAN COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 11**

**KAUFMAN COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2017**

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
Certified Public Accountants



**KAUFMAN COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 11**

**KAUFMAN COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2017**



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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Kaufman County Municipal Utility District No. 11  
Kaufman County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Kaufman County Municipal Utility District No. 11 (the "District"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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





## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

January 17, 2018



**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Management's discussion and analysis of Kaufman County Municipal Utility District No. 11's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2017. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

**FUND FINANCIAL STATEMENTS**

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**FUND FINANCIAL STATEMENTS (Continued)**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by \$6,057,902 as of September 30, 2017. A portion of the district's net position reflects its net investment in capital assets (land, landscaping, roads and the water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in the Statement of Net Position as of September 30, 2017 and September 30, 2016:

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2017</u>	<u>2016</u>	Change Positive (Negative)
Current and Other Assets	\$ 1,677,834	\$ 1,394,698	\$ 283,136
Capital Assets (Net of Accumulated Depreciation)	<u>19,746,798</u>	<u>15,686,727</u>	<u>4,060,071</u>
Total Assets	<u>\$ 21,424,632</u>	<u>\$ 17,081,425</u>	<u>\$ 4,343,207</u>
Deferred Outflows of Resources	<u>\$ 324,633</u>	<u>\$ 347,473</u>	<u>\$ (22,840)</u>
Due to Developer	\$ 16,252,111	\$ 11,098,436	\$ (5,153,675)
Bonds Payable	10,730,388	11,156,241	425,853
Other Liabilities	<u>824,668</u>	<u>589,465</u>	<u>(235,203)</u>
Total Liabilities	<u>\$ 27,807,167</u>	<u>\$ 22,844,142</u>	<u>\$ (4,963,025)</u>
Net Position:			
Net Investment in Capital Assets	\$ (6,894,838)	\$ (6,204,199)	\$ (690,639)
Restricted	462,533	485,929	(23,396)
Unrestricted	<u>374,403</u>	<u>303,026</u>	<u>71,377</u>
Total Net Position	<u>\$ (6,057,902)</u>	<u>\$ (5,415,244)</u>	<u>\$ (642,658)</u>

The following table provides a summary of the District's operations for the years ended September 30, 2017, and September 30, 2016.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2017</u>	<u>2016</u>	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,776,766	\$ 1,638,976	\$ 137,790
Charges for Services	1,825,883	1,565,271	260,612
Other Revenues	<u>74,884</u>	<u>65,769</u>	<u>9,115</u>
Total Revenues	<u>\$ 3,677,533</u>	<u>\$ 3,270,016</u>	<u>\$ 407,517</u>
Expenses for Services	<u>4,320,191</u>	<u>3,709,084</u>	<u>(611,107)</u>
Change in Net Position	\$ (642,658)	\$ (439,068)	\$ (203,590)
Net Position, Beginning of Year	<u>(5,415,244)</u>	<u>(4,976,176)</u>	<u>(439,068)</u>
Net Position, End of Year	<u>\$ (6,057,902)</u>	<u>\$ (5,415,244)</u>	<u>\$ (642,658)</u>

\* As adjusted

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of September 30, 2017, were \$865,973, an increase of \$61,828 from the prior year.

The General Fund fund balance increased by \$81,261, primarily due to tax and service revenues exceeding operating costs.

The Debt Service Fund fund balance decreased by \$19,385, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$48.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$16,791 less than budgeted revenues, primarily due to lower than anticipated service revenues. Actual expenditures were \$117,828 more than budgeted primarily due to higher than anticipated purchased master district services and repairs and maintenance costs.

**CAPITAL ASSETS**

Capital assets as of September 30, 2017, total \$19,746,798 (net of accumulated depreciation) and include land, roads, landscaping, and the water, wastewater and drainage systems. Current year capital asset additions include the purchase of land as well as construction of paving and drainage infrastructure to serve District customers.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,961,435	\$ 1,825,856	\$ 135,579
Capital Assets, Net of Accumulated Depreciation:			
Water System	1,393,258	1,434,444	(41,186)
Wastewater System	1,696,647	1,747,181	(50,534)
Drainage System	6,170,000	3,373,309	2,796,691
Roads	8,344,763	7,051,575	1,293,188
Irrigation and Landscaping	180,695	254,362	(73,667)
Total Net Capital Assets	<u>\$ 19,746,798</u>	<u>\$ 15,686,727</u>	<u>\$ 4,060,071</u>

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**LONG-TERM DEBT ACTIVITY**

At year-end, the District had total bond debt payable of \$10,745,000. The changes in the debt position of the District during the fiscal year ended September 30, 2017, are summarized as follows:

Bond Debt Payable, October 1, 2016	\$ 11,170,000
Less: Bond Principal Paid	<u>425,000</u>
Bond Debt Payable, September 30, 2017	<u>\$ 10,745,000</u>

The Series 2010 bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The Series 2014 bonds carry an insured rating of "AA" by virtue of bond insurance issued by Municipal Assurance Corp. The Series 2014 Refunding bonds carry an insured rating of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. The above ratings are as of September 30, 2017, and reflect changes, if any, through the fiscal year-end.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kaufman County Municipal Utility District No. 11, c/o Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, TX 75254.



**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 624,465	\$ 247,928
Investments		245,000
Receivables:		
Property Taxes	2,514	2,141
Service Accounts	146,855	
Accrued Interest		235
Other	2,295	
Prepaid Costs		
Due from Other Governmental Units	35,794	
Advance for Operations of Master District Facilities	339,068	
Land		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 1,150,991</b>	<b>\$ 495,304</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,150,991</b>	<b>\$ 495,304</b>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 16,230	\$ 888,623 245,000	\$	\$ 888,623 245,000
	4,655		4,655
	146,855		146,855
	235		235
	2,295		2,295
		15,309	15,309
	35,794		35,794
	339,068		339,068
		1,961,435	1,961,435
		<u>17,785,363</u>	<u>17,785,363</u>
<u>\$ 16,230</u>	<u>\$ 1,662,525</u>	<u>\$ 19,762,107</u>	<u>\$ 21,424,632</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 324,633</u>	<u>\$ 324,633</u>
<u>\$ 16,230</u>	<u>\$ 1,662,525</u>	<u>\$ 20,086,740</u>	<u>\$ 21,749,265</u>

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 622,704	\$
Accrued Interest Payable		
Due to Developer		
Security Deposits	169,193	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	\$ 791,897	\$ -0-
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 2,514	\$ 2,141
 <b>FUND BALANCES/NET POSITION</b>		
<b>FUND BALANCES</b>		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		493,163
Assigned to 2018 Budget Deficit	19,701	
Unrestricted	336,879	
<b>TOTAL FUND BALANCES</b>	\$ 356,580	\$ 493,163
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 1,150,991	\$ 495,304
 <b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 622,704	\$	\$ 622,704
		32,771	32,771
		16,252,111	16,252,111
	169,193		169,193
		440,000	440,000
		10,290,388	10,290,388
<u>\$ -0-</u>	<u>\$ 791,897</u>	<u>\$ 27,015,270</u>	<u>\$ 27,807,167</u>
<u>\$ -0-</u>	<u>\$ 4,655</u>	<u>\$ (4,655)</u>	<u>\$ -0-</u>
\$ 16,230	\$ 16,230	\$ (16,230)	\$
	493,163	(493,163)	
	19,701	(19,701)	
	336,879	(336,879)	
<u>\$ 16,230</u>	<u>\$ 865,973</u>	<u>\$ (865,973)</u>	<u>\$ - 0 -</u>
<u>\$ 16,230</u>	<u>\$ 1,662,525</u>		
		\$ (6,894,838)	\$ (6,894,838)
		462,533	462,533
		374,403	374,403
		<u>\$ (6,057,902)</u>	<u>\$ (6,057,902)</u>

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017**

Total Fund Balances - Governmental Funds	\$	865,973
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and amortized over the remaining life of the new debt or the old debt, whichever is shorter.		324,633
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		19,746,798
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Deferred inflows of resources related to property taxes receivable for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District.		4,655
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Prepaid bond insurance in governmental activities is not a current financial resource and, therefore, is not reported as an asset in the governmental funds.		15,309
--	--	--------

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

Due to Developer	\$ (16,252,111)	
Accrued Interest Payable	(32,771)	
Bonds Payable	<u>(10,730,388)</u>	<u>(27,015,270)</u>
Total Net Position - Governmental Activities		<u>\$ (6,057,902)</u>

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

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**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 966,883	\$ 823,642
Water Service	837,245	
Wastewater Service	489,122	
Garbage Service	163,823	
Penalty and Interest	50,599	3,469
Tap Connection and Inspection Fees	281,625	
Miscellaneous Revenues	71,937	2,941
	<u>\$ 2,861,234</u>	<u>\$ 830,052</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 30,212	\$ 400
Contracted Services	243,529	24,825
Purchased Master District Services	1,989,097	
Repairs and Maintenance	393,879	
Depreciation		
Other	123,256	313
Debt Service:		
Bond Principal		425,000
Bond Interest		398,899
	<u>\$ 2,779,973</u>	<u>\$ 849,437</u>
<b>TOTAL EXPENDITURES/EXPENSES</b>		
	<u>\$ 2,779,973</u>	<u>\$ 849,437</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 81,261	\$ (19,385)
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION -</b>		
<b>OCTOBER 1, 2016, AS ADJUSTED</b>	<u>275,319</u>	<u>512,548</u>
<b>FUND BALANCES/NET POSITION -</b>		
<b>SEPTEMBER 30, 2017</b>	<u>\$ 356,580</u>	<u>\$ 493,163</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 1,790,525	\$ (13,759)	\$ 1,776,766
	837,245		837,245
	489,122		489,122
	163,823		163,823
	54,068		54,068
	281,625		281,625
6	74,884		74,884
<u>6</u>	<u>3,691,292</u>	<u>(13,759)</u>	<u>3,677,533</u>
\$	\$ 30,612	\$	\$ 30,612
	268,354		268,354
	1,989,097		1,989,097
	393,879		393,879
54	123,623	1,093,605	1,093,605
	425,000	(425,000)	
	398,899	22,122	421,021
<u>54</u>	<u>3,629,464</u>	<u>690,727</u>	<u>4,320,191</u>
\$ (48)	\$ 61,828	\$ (61,828)	\$
		(642,658)	(642,658)
<u>16,278</u>	<u>804,145</u>	<u>(6,219,389)</u>	<u>(5,415,244)</u>
<u>\$ 16,230</u>	<u>\$ 865,973</u>	<u>\$ (6,923,875)</u>	<u>\$ (6,057,902)</u>

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



**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Net Change in Fund Balances - Governmental Funds	\$	61,828
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(13,759)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(1,093,605)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		425,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(22,122)
Change in Net Position - Governmental Activities	\$	<u>(642,658)</u>

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 1. CREATION OF DISTRICT**

Kaufman County Municipal Utility District No. 11, formerly known as Kingsborough Municipal Utility District No. 4 of Kaufman County, Texas, was created in 2003, by H.B. No. 3622, 78<sup>th</sup> Legislature of Texas, Regular Session, as a conservation and reclamation district created under and essential to accomplishing the purposes of Section 59, Article XVI and Section 52, Article II of the Texas Constitution. The District is under the oversight of the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, roads, solid waste collection and disposal, including recycling. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its organizational meeting on November 12, 2004, and sold its first bonds on September 20, 2007.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

The District and the other districts in the development have contracted with the Kaufman County Municipal Utility District No. 12 (“Master District”) for the financing, operation, and maintenance of regional water, sanitary sewer, and drainage facilities. These facilities are under the oversight of the Master District’s Board of Directors and financial activity of the Master District has been included in the financial statements of the District as a note disclosure (see Note 8).

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation

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

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

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

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

Government-Wide Financial Statements

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

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

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

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

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
Roads	10-50
All Other Equipment	3-20

Budgeting

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

Pensions

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus

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

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

*Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

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

*Assigned*: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. The District has assigned \$19,701 of its General Fund fund balance to the 2018 budgeted deficit.

*Unassigned*: all other spendable amounts in the General Fund.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

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

Accounting Estimates

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

**NOTE 3. LONG-TERM DEBT**

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2017:

	October 1, 2016	Additions	Retirements	September 30, 2017
Bonds Payable	\$ 11,170,000	\$	\$ 425,000	\$ 10,745,000
Unamortized Discounts	(109,037)		(5,409)	(103,628)
Unamortized Premiums	95,278		6,262	89,016
Bonds Payable, Net	<u>\$ 11,156,241</u>	<u>\$ -0-</u>	<u>\$ 425,853</u>	<u>\$ 10,730,388</u>
		Amount Due Within One Year		\$ 440,000
		Amount Due After One Year		10,290,388
		Bonds Payable, Net		<u>\$ 10,730,388</u>

As of September 30, 2017, the District had authorized but unissued bonds in the amount of \$38,950,000 for roads, \$86,000,000 for water, sewer, and drainage facilities, \$78,000,000 for refunding road bonds, and \$129,000,000 for refunding water, sewer, and drainage facilities bonds. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 3. LONG-TERM DEBT (Continued)**

	<u>Series 2010</u>	<u>Series 2014</u>
Amount Outstanding – September 30, 2017	\$2,260,000	\$1,880,000
Interest Rates	4.00% - 6.00%	3.625% - 4.000%
Maturity Dates – Serially Beginning/Ending	March 1, 2018/2035	March 1 2033/2039
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2018*	March 1, 2023*
	<u>Refunding Series 2014</u>	
Amount Outstanding – September 30, 2017	\$6,605,000	
Interest Rates	2.00% – 4.00%	
Maturity Dates – Serially Beginning/Ending	March 1, 2018/2032	
Interest Payment Dates	March 1/ September 1	
Callable Dates	March 1, 2023*	

\* Or any date thereafter at a price of par plus unpaid accrued interest to the date fixed for redemption. Series 2010 term bonds maturing on March 1, 2035, are subject to mandatory redemption beginning March 1, 2034. Series 2014 Refunding Road term bonds maturing on March 1, 2027 are subject to mandatory redemption beginning March 1, 2026. Series 2014 Road term bonds maturing on March 1, 2034, 2037, and 2039 are subject to mandatory redemption beginning March 1, 2033, 2035, and 2038, respectively.

As of September 30, 2017, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 440,000	\$ 387,349	\$ 827,349
2019	450,000	375,349	825,349
2020	470,000	360,924	830,924
2021	480,000	344,123	824,123
2022	500,000	326,798	826,798
2023-2027	2,830,000	1,360,445	4,190,445
2028-2032	3,140,000	784,542	3,924,542
2033-2037	1,655,000	326,553	1,981,553
2038-2039	780,000	31,600	811,600
	<u>\$ 10,745,000</u>	<u>\$ 4,297,683</u>	<u>\$ 15,042,683</u>



**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 3. LONG-TERM DEBT (Continued)**

During the year ended September 30, 2017, the District levied an ad valorem debt service tax rate of \$0.46 per \$100 of assessed valuation, which resulted in a tax levy of \$825,764 on the adjusted taxable valuation of \$179,513,976 for the 2016 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

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

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

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,133,623 and the bank balance was \$1,178,715. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2017, as listed below:

	Cash	Certificate of Deposit	Total
GENERAL FUND	\$ 624,465	\$	\$ 624,465
DEBT SERVICE FUND	247,928	245,000	492,928
CAPITAL PROJECTS FUND	16,230		16,230
TOTAL DEPOSITS	\$ 888,623	\$ 245,000	\$ 1,133,623

Investments

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of September 30, 2017, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<b><u>DEBT SERVICE FUND</u></b>		
Certificate of Deposit	<u>\$ 245,000</u>	<u>\$ 245,000</u>

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

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

Restrictions

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

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2017:

	October 1, 2016	Increases	Decreases	September 30, 2017
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 1,825,856	\$ 135,579	\$ - 0 -	\$ 1,961,435
<b>Capital Assets Subject to Depreciation</b>				
Water System	\$ 1,866,061	\$	\$	\$ 1,866,061
Wastewater System	2,274,020			2,274,020
Drainage System	4,287,825	3,078,740		7,366,565
Roads	9,244,519	1,897,419		11,141,938
Irrigation and Landscaping	1,341,420	41,938		1,383,358
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 19,013,845</u>	<u>\$ 5,018,097</u>	<u>\$ - 0 -</u>	<u>\$ 24,031,942</u>
<b>Less Accumulated Depreciation</b>				
Water System	\$ 431,617	\$ 41,186	\$	\$ 472,803
Wastewater System	526,839	50,534		577,373
Drainage System	914,516	282,049		1,196,565
Roads	2,192,944	604,231		2,797,175
Irrigation and Landscaping	1,087,058	115,605		1,202,663
<b>Total Accumulated Depreciation</b>	<u>\$ 5,152,974</u>	<u>\$ 1,093,605</u>	<u>\$ - 0 -</u>	<u>\$ 6,246,579</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 13,860,871</u>	<u>\$ 3,924,492</u>	<u>\$ - 0 -</u>	<u>\$ 17,785,363</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 15,686,727</u>	<u>\$ 4,060,071</u>	<u>\$ - 0 -</u>	<u>\$ 19,746,798</u>

**NOTE 7. MAINTENANCE TAX**

On February 5, 2005, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's systems and other operating and maintenance expenses. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.54 per \$100 of assessed valuation, which resulted in a tax levy of \$969,375 on the adjusted taxable valuation of \$179,513,976 for the 2016 tax year.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 8. CONTRACT WITH THE MASTER DISTRICT**

On February 28, 2005, the District executed a 50-year contract with Kaufman County Municipal Utility District No. 12 (“Master District”) for the financing, operation and maintenance of the Master District’s regional water, sanitary sewer, and drainage facilities. The Master District administers the contract for the Participants, one of which is the Master District itself. The District, Kaufman County Municipal District No. 9, Kaufman County Municipal Utility District No. 10, Kaufman County Municipal Utility District No. 12, and Kaufman County Municipal Utility District No. 14 (formerly known as Kaufman County Municipal Utility District No. 8) are the Participants at this time.

The Master District has entered into the Agreement Regarding Wholesale Treated Water Service and the Agreement Regarding Wholesale Wastewater Treatment Service with the City of Mesquite, Texas for the purpose of providing both water and wastewater treatment services. Each Participant has been added as additional parties to these agreements. Each Participant has contracted with the Master District to provide, receive, and transport its water supply, sanitary waste, and storm waters through the Master District facilities. The Master District will finance the Master District facilities through the issuance of Master District bonds. Each Participant will be responsible for its pro rata share of the debt service requirements on the Master District bonds. Pro rata shares will be calculated by dividing each Participant’s certified appraised value by the cumulative total of the certified values of all the Participants. The Master District owns and operates the Master District facilities.

The Master District’s Developer has paid for the construction, engineering and related costs necessary to fund the construction of the Master District Facilities. These payments were made in accordance with financing agreements entered into between the Master District and its Developer.

The Master District prepares an operating budget annually. The Master District bills each Participant its share of the monthly charges incurred by the Master District. Each Participant’s share of the monthly charges is determined by dividing the total number of equivalent single family residential connections for all Participants by the number of equivalent single-family connections for each Participant. The contract provides for an operating reserve equal to three months operating expenses. During the year ended September 30, 2017, the District recorded expenditures of \$1,989,097 for its pro rata share of purchased water and wastewater services, operating and maintenance costs, and capital improvements. The District has funded its share of the operating reserve in the amount of \$339,068.

The following summary financial data of the Master District is presented for the fiscal year ending September 30, 2017. Copies of financial statements on the Master District can be obtained by contacting its attorney, Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, TX 75254.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 8. CONTRACT WITH THE MASTER DISTRICT (Continued)**

	<u>Enterprise Fund</u>
Total Assets	\$ 6,667,944
Total Liabilities	<u>9,054,470</u>
Total Net Position	<u>\$ (2,386,526)</u>
Total Operating Revenues	\$ 3,345,025
Total Operating Expenses	<u>3,505,671</u>
Change in Fund Net Position	\$ (160,646)
Fund Net Position – October 1, 2016	<u>(2,225,880)</u>
Fund Net Position – September 30, 2017	<u>\$ (2,386,526)</u>

**NOTE 9. UNREIMBURSED DEVELOPER COSTS**

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

**NOTE 10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant changes in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 11. CONTRACT TAX**

On May 7, 2005, the voters within the District approved the levy and collection of an annual contract tax imposed on all taxable property within the boundaries of the District at an unlimited amount per \$100 of assessed valuation for purposes of making payments pursuant to the contract for financing the regional water, sanitary sewer and storm sewer facilities, the contract for wholesale treated water service and the contract for wholesale treated wastewater service (see Note 8). By Order dated July 10, 2006, the Texas Commission on Environmental Quality approved the levy of a contract tax by the District in a sufficient amount to make payments related to the above noted contracts. During the current fiscal year, the District did not levy a contract tax.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 12. SUBSEQUENT EVENT – BOND SALE**

On October 18, 2017, subsequent to year-end, the District closed on the sale of \$5,900,000 Series 2017 Unlimited Tax Road Bonds. The net proceeds were used to reimburse the Developer for road improvements and related engineering and land costs associated with Heartland Tract A, Phases 1A, 2A, 2B, 3A, 3B, and 4A.

**NOTE 13. PRIOR PERIOD ADJUSTMENT**

The District determined in the current fiscal year that the estimated useful lives applied to certain road infrastructure were not appropriate. The adjustment increased the prior year net position deficit balance from \$7,000,653 to a deficit balance of \$5,415,244, a change of \$1,585,409.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2017**





**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Property Taxes	\$ 959,000	\$ 966,883	\$ 7,883
Water Service	882,000	837,245	(44,755)
Wastewater Service	486,000	489,122	3,122
Garbage Service	168,000	163,823	(4,177)
Penalty and Interest	51,000	50,599	(401)
Tap Connection and Inspection Fees	266,625	281,625	15,000
Miscellaneous Revenues	<u>65,400</u>	<u>71,937</u>	<u>6,537</u>
<b>TOTAL REVENUES</b>	<u>\$ 2,878,025</u>	<u>\$ 2,861,234</u>	<u>\$ (16,791)</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 33,750	\$ 30,212	\$ 3,538
Contracted Services	251,000	243,529	7,471
Purchased Master District Services	1,913,090	1,989,097	(76,007)
Repairs and Maintenance	344,900	393,879	(48,979)
Other	<u>119,405</u>	<u>123,256</u>	<u>(3,851)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,662,145</u>	<u>\$ 2,779,973</u>	<u>\$ (117,828)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 215,880	\$ 81,261	\$ (134,619)
<b>FUND BALANCE - OCTOBER 1, 2016</b>	<u>275,319</u>	<u>275,319</u>	<u>_____</u>
<b>FUND BALANCE - SEPTEMBER 30, 2017</b>	<u>\$ 491,199</u>	<u>\$ 356,580</u>	<u>\$ (134,619)</u>

See accompanying independent auditor's report.

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**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**

**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**SEPTEMBER 30, 2017**



**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

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

**2. RETAIL SERVICE PROVIDERS**

**a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):**

Based on the rate order effective January 18, 2017.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 38.81	-0-	N	\$ 3.57 \$ 4.31 \$ 5.40 \$ 6.48	0,001 to 8,000 8,001 to 12,000 12,001 to 15,000 15,001 and up
WASTEWATER:	\$ 23.11	-0-	N	\$ 2.121 \$ 3.00 \$ 4.00 \$ 5.00	0,001 to 8,000 8,001 to 12,000 12,001 to 15,000 15,001 and up
SURCHARGE:					
Garbage Fee	\$ 12.00		Y		

District employs winter averaging for wastewater usage?          X    
Yes                      No

Total monthly charges per 10,000 gallons usage: Water: \$75.99 Wastewater: \$46.08 Surcharge: \$12.00

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ <sup>3</sup> / <sub>4</sub> "	<u>1,232</u>	<u>1,220</u>	x 1.0	<u>1,220</u>
1"			x 2.5	
1½"			x 5.0	
2"	<u>16</u>	<u>15</u>	x 8.0	<u>120</u>
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>1,248</u></u>	<u><u>1,235</u></u>		<u><u>1,340</u></u>
Total Wastewater Connections	<u><u>1,234</u></u>	<u><u>1,222</u></u>	x 1.0	<u><u>1,222</u></u>

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

Gallons pumped into system: \*          Water Accountability Ratio:\*

Gallons billed to customers:            86,123,000

\* The District is part of a jointly operated water system with other participants who receive water from the Kaufman County Municipal Utility District No. 12 Master District.

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

Does the District have Debt Service standby fees? Yes  No

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes  No

County in which District is located:

Kaufman County, Texas

Is the District located within a city?

Entirely  Partly  Not at all

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

Entirely  Partly  Not at all

ETJ in which District is located:

City of Crandall, Texas

Are Board Members appointed by an office outside the District?

Yes  No

See accompanying independent auditor's report.



**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

PROFESSIONAL FEES:	
Auditing	\$ 13,000
Engineering	495
Legal	<u>16,717</u>
TOTAL PROFESSIONAL FEES	<u>\$ 30,212</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Master District Services	<u>\$ 1,989,097</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 11,232
Operations and Billing	<u>87,123</u>
TOTAL CONTRACTED SERVICES	<u>\$ 98,355</u>
UTILITIES	<u>\$ 39,667</u>
REPAIRS AND MAINTENANCE	<u>\$ 393,879</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 4,500
Dues	580
Insurance	5,976
Payroll Taxes	344
Travel and Meetings	321
Other	<u>621</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 12,342</u>
TAP CONNECTIONS	<u>\$ 2,848</u>
SOLID WASTE DISPOSAL	<u>\$ 145,174</u>
BOND ISSUANCE COSTS	<u>\$ 5,900</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 1,666
Permit Fees	2,815
Inspection Fees	51,395
Regulatory Assessment	<u>6,623</u>
TOTAL OTHER EXPENDITURES	<u>\$ 62,499</u>
TOTAL EXPENDITURES	<u>\$ 2,779,973</u>

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**INVESTMENTS**  
**SEPTEMBER 30, 2017**

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX1591	0.95%	02/23/18	<u>\$ 245,000</u>	<u>\$ 235</u>

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
OCTOBER 1, 2016	\$	11,321		\$ 7,093
Adjustments to Beginning				
Balance		<u>(11,299)</u>	\$ 22	<u>(7,074)</u> \$ 19
Original 2016 Tax Levy	\$	979,296		\$ 834,215
Adjustment to 2016 Tax Levy		<u>(9,921)</u>	<u>969,375</u>	<u>(8,451)</u> <u>825,764</u>
TOTAL TO BE				
ACCOUNTED FOR			\$ 969,397	\$ 825,783
TAX COLLECTIONS:				
Prior Years	\$			\$
Current Year		<u>966,883</u>	<u>966,883</u>	<u>823,642</u> <u>823,642</u>
TAXES RECEIVABLE -				
SEPTEMBER 30, 2017			<u>\$ 2,514</u>	<u>\$ 2,141</u>
TAXES RECEIVABLE BY				
YEAR:				
2016		\$ 2,492		\$ 2,122
2015		7		4
2014		4		6
2013		6		4
2012		<u>5</u>		<u>5</u>
TOTAL		<u>\$ 2,514</u>		<u>\$ 2,141</u>

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	2016	2015	2014	2013
PROPERTY VALUATIONS:				
Land	\$ 38,855,312	\$ 38,760,312	\$ 31,545,505	\$ 31,374,455
Improvements	155,343,515	138,330,465	132,633,292	119,269,421
Personal Property	154,590	144,580	115,300	108,150
Exemptions	(14,839,441)	(12,586,471)	(11,753,036)	(11,038,610)
TOTAL PROPERTY VALUATIONS	\$ 179,513,976	\$ 164,648,886	\$ 152,541,061	\$ 139,713,416
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.46	\$ 0.37	\$ 0.59	\$ 0.45
Maintenance	0.54	0.63	0.41	0.55
TOTAL TAX RATES PER \$100 VALUATION	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
ADJUSTED TAX LEVY*	\$ 1,795,139	\$ 1,646,488	\$ 1,525,486	\$ 1,397,140
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	99.74 %	99.99 %	99.99 %	99.99 %

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

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 assessed valuation approved by voters on February 5, 2005.

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2017**

SERIES - 2010

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 75,000	\$ 106,865	\$ 181,865
2019	80,000	102,215	182,215
2020	85,000	97,265	182,265
2021	85,000	92,165	177,165
2022	90,000	86,915	176,915
2023	100,000	82,215	182,215
2024	105,000	78,115	183,115
2025	110,000	73,760	183,760
2026	115,000	69,090	184,090
2027	125,000	63,925	188,925
2028	130,000	58,250	188,250
2029	140,000	52,105	192,105
2030	145,000	45,514	190,514
2031	155,000	38,500	193,500
2032	165,000	30,938	195,938
2033	175,000	22,820	197,820
2034	185,000	14,088	199,088
2035	195,000	4,777	199,777
2036			
2037			
2038			
2039			
	<u>\$ 2,260,000</u>	<u>\$ 1,119,522</u>	<u>\$ 3,379,522</u>

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2017**

S E R I E S - 2 0 1 4

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$	\$ 72,131	\$ 72,131
2019		72,131	72,131
2020		72,131	72,131
2021		72,131	72,131
2022		72,131	72,131
2023		72,131	72,131
2024		72,131	72,131
2025		72,131	72,131
2026		72,131	72,131
2027		72,131	72,131
2028		72,131	72,131
2029		72,131	72,131
2030		72,131	72,131
2031		72,132	72,132
2032		72,132	72,132
2033	125,000	69,866	194,866
2034	130,000	65,244	195,244
2035	135,000	60,357	195,357
2036	345,000	51,357	396,357
2037	365,000	38,044	403,044
2038	380,000	23,600	403,600
2039	400,000	8,000	408,000
	<u>\$ 1,880,000</u>	<u>\$ 1,398,435</u>	<u>\$ 3,278,435</u>

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2017**

SERIES - 2014 REFUNDING

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 365,000	\$ 208,353	\$ 573,353
2019	370,000	201,003	571,003
2020	385,000	191,528	576,528
2021	395,000	179,827	574,827
2022	410,000	167,752	577,752
2023	425,000	155,227	580,227
2024	440,000	142,252	582,252
2025	450,000	128,902	578,902
2026	470,000	112,752	582,752
2027	490,000	93,552	583,552
2028	505,000	75,420	580,420
2029	525,000	58,163	583,163
2030	540,000	39,788	579,788
2031	560,000	20,188	580,188
2032	275,000	5,019	280,019
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 6,605,000</u>	<u>\$ 1,779,726</u>	<u>\$ 8,384,726</u>

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2017**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	\$ 440,000	\$ 387,349	\$ 827,349
2019	450,000	375,349	825,349
2020	470,000	360,924	830,924
2021	480,000	344,123	824,123
2022	500,000	326,798	826,798
2023	525,000	309,573	834,573
2024	545,000	292,498	837,498
2025	560,000	274,793	834,793
2026	585,000	253,973	838,973
2027	615,000	229,608	844,608
2028	635,000	205,801	840,801
2029	665,000	182,399	847,399
2030	685,000	157,433	842,433
2031	715,000	130,820	845,820
2032	440,000	108,089	548,089
2033	300,000	92,686	392,686
2034	315,000	79,332	394,332
2035	330,000	65,134	395,134
2036	345,000	51,357	396,357
2037	365,000	38,044	403,044
2038	380,000	23,600	403,600
2039	400,000	8,000	408,000
	<u>\$ 10,745,000</u>	<u>\$ 4,297,683</u>	<u>\$ 15,042,683</u>

See accompanying independent auditor's report.



**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11  
CHANGES IN LONG-TERM BOND DEBT  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2016
Kaufman County Municipal Utility District No. 11 Unlimited Tax Road Bonds - Series 2010	\$ 2,620,000	\$ 2,330,000
Kaufman County Municipal Utility District No. 11 Unlimited Tax Road Bonds - Series 2014	1,880,000	1,880,000
Kaufman County Municipal Utility District No. 11 Unlimited Tax Road Refunding Bonds - Series 2014	<u>7,355,000</u>	<u>6,960,000</u>
<b>TOTAL</b>	<u><b>\$ 11,855,000</b></u>	<u><b>\$ 11,170,000</b></u>

Bond Authority:	Water, Sewer and Drainage Refunding Bonds	Road Refunding Bonds	Water, Sewer Drainage Bonds	Road Bonds
Amount Authorized by Voters	\$ 129,000,000	\$ 78,000,000	\$ 86,000,000	\$ 52,000,000
Amount Issued	<u>                    </u>	<u>387,810</u>	<u>                    </u>	<u>13,050,000</u>
Remaining to be Issued	<u><u>\$ 129,000,000</u></u>	<u><u>\$ 77,612,190</u></u>	<u><u>\$ 86,000,000</u></u>	<u><u>\$ 38,950,000</u></u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2017</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 70,000	\$ 111,215	\$ 2,260,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
		72,132	1,880,000	Amegy Bank, N.A. Houston, TX
	<u>355,000</u>	<u>215,552</u>	<u>6,605,000</u>	Amegy Bank, N.A. Houston, TX
<u>\$ - 0 -</u>	<u>\$ 425,000</u>	<u>\$ 398,899</u>	<u>\$ 10,745,000</u>	

Debt Service Fund cash and investment balances as of September 30, 2017: \$ 492,928

Average annual debt service payment (principal and interest) for remaining term  
of all debt: \$ 683,758

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

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2017	2016	2015
<b>REVENUES</b>			
Property Taxes	\$ 966,883	\$ 1,027,304	\$ 627,384
Water Service	837,245	834,874	768,961
Wastewater Service	489,122	506,875	465,028
Garbage Service	163,823	162,131	159,492
Penalty and Interest	50,599	52,589	50,625
Tap Connection and Inspection Fees	281,625	3,375	39,347
Miscellaneous Revenues	71,937	62,787	59,697
<b>TOTAL REVENUES</b>	<b>\$ 2,861,234</b>	<b>\$ 2,649,935</b>	<b>\$ 2,170,534</b>
<b>EXPENDITURES</b>			
Service Operations:			
Professional Fees	\$ 30,212	\$ 21,976	\$ 35,374
Contracted Services	243,529	244,147	237,924
Purchased Master District Services	1,989,097	2,028,467	2,080,671
Repairs and Maintenance	393,879	202,235	118,760
Other	123,256	62,288	66,049
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,779,973</b>	<b>\$ 2,559,113</b>	<b>\$ 2,538,778</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 81,261</b>	<b>\$ 90,822</b>	<b>\$ (368,244)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer Advances	\$ - 0 -	\$ 56,250	\$ - 0 -
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 81,261</b>	<b>\$ 147,072</b>	<b>\$ (368,244)</b>
<b>BEGINNING FUND BALANCE</b>	275,319	128,247	496,491
<b>ENDING FUND BALANCE</b>	<b>\$ 356,580</b>	<b>\$ 275,319</b>	<b>\$ 128,247</b>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 766,609	\$ 612,049	33.8 %	38.8 %	29.0 %	34.7 %	29.4 %
691,859	660,429	29.3	31.5	35.4	31.4	31.6
455,519	456,805	17.1	19.1	21.4	20.7	21.9
156,521	149,208	5.7	6.1	7.3	7.1	7.1
50,174	44,586	1.8	2.0	2.3	2.3	2.1
35,045	117,365	9.8	0.1	1.8	1.6	5.6
48,712	47,687	2.5	2.4	2.8	2.2	2.3
<u>\$ 2,204,439</u>	<u>\$ 2,088,129</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 38,531	\$ 28,917	1.1 %	0.8 %	1.6 %	1.7 %	1.4 %
224,398	206,240	8.5	9.2	11.0	10.2	9.9
2,014,033	1,956,091	69.5	76.5	95.9	91.4	93.7
94,126	40,708	13.8	7.6	5.5	4.3	1.9
52,013	61,323	4.3	2.4	3.0	2.4	2.9
<u>\$ 2,423,101</u>	<u>\$ 2,293,279</u>	<u>97.2 %</u>	<u>96.5 %</u>	<u>117.0 %</u>	<u>110.0 %</u>	<u>109.8 %</u>
\$ (218,662)	\$ (205,150)	<u>2.8 %</u>	<u>3.5 %</u>	<u>(17.0) %</u>	<u>(10.0) %</u>	<u>(9.8) %</u>
\$ - 0 -	\$ - 0 -					
\$ (218,662)	\$ (205,150)					
715,153	920,303					
<u>\$ 496,491</u>	<u>\$ 715,153</u>					

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2017	2016	2015
<b>REVENUES</b>			
Property Taxes	\$ 823,642	\$ 603,872	\$ 900,346
Penalty and Interest	3,469	5,427	5,106
Miscellaneous Revenues	2,941	2,957	3,056
<b>TOTAL REVENUES</b>	<b>\$ 830,052</b>	<b>\$ 612,256</b>	<b>\$ 908,508</b>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 23,988	\$ 22,645	\$ 292,186
Debt Service Principal	425,000	405,000	535,000
Debt Service Interest and Fees	400,449	413,706	356,217
<b>TOTAL EXPENDITURES</b>	<b>\$ 849,437</b>	<b>\$ 841,351</b>	<b>\$ 1,183,403</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (19,385)</b>	<b>\$ (229,095)</b>	<b>\$ (274,895)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds From Issuance of Long-term Debt	\$	\$	\$ 7,427,131
Payment to Refunded Bond Escrow Agent			(7,195,383)
Bond Premium			106,466
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ 338,214</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (19,385)</b>	<b>\$ (229,095)</b>	<b>\$ 63,319</b>
<b>BEGINNING FUND BALANCE</b>	512,548	741,643	678,324
<b>ENDING FUND BALANCE</b>	<b>\$ 493,163</b>	<b>\$ 512,548</b>	<b>\$ 741,643</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	1,235	1,160	1,152
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	1,222	1,146	1,138

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 627,304	\$ 718,682	99.2 %	98.6 %	99.1 %	99.3 %	98.4 %
1,232	7,238	0.4	0.9	0.6	0.2	1.0
3,347	4,523	0.4	0.5	0.3	0.5	0.6
<u>\$ 631,883</u>	<u>\$ 730,443</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 17,289	\$ 16,586	2.9 %	3.7 %	32.2 %	2.7 %	2.3 %
300,000	280,000	51.2	66.1	58.9	47.5	38.3
541,940	556,163	48.2	67.6	39.2	85.8	76.1
<u>\$ 859,229</u>	<u>\$ 852,749</u>	<u>102.3 %</u>	<u>137.4 %</u>	<u>130.3 %</u>	<u>136.0 %</u>	<u>116.7 %</u>
<u>\$ (227,346)</u>	<u>\$ (122,306)</u>	<u>(2.3) %</u>	<u>(37.4) %</u>	<u>(30.3) %</u>	<u>(36.0) %</u>	<u>(16.7) %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ (227,346)	\$ (122,306)					
905,670	1,027,976					
<u>\$ 678,324</u>	<u>\$ 905,670</u>					
1,150	1,124					
<u>1,134</u>	<u>1,117</u>					

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**SEPTEMBER 30, 2017**

District Mailing Address - Kaufman County Municipal Utility District No. 11  
c/o Coats Rose, P.C.  
14755 Preston Road, Suite 600  
Dallas, TX 75254

District Telephone Number - (972) 982-8455

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>September 30, 2017</u>	Expense Reimbursements for the year ended <u>September 30, 2017</u>	<u>Title</u>
Austin Young	05/16 05/20 (Elected)	\$ 900	\$ 79	President
Gregg E. Gibb	05/14 05/18 (Elected)	\$ 1,050	\$ 54	Vice President
Jan Echard	08/14 05/18 (Appointed)	\$ 600	\$ 5	Secretary
R. C. Williams	05/16 05/20 (Elected)	\$ 1,050	\$ 144	Assistant Secretary
Joe Tucker	05/16 05/20 (Elected)	\$ 900	\$ 39	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
January 18, 2017

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on November 12, 2004. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 11**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**SEPTEMBER 30, 2017**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2017</u>	<u>Title</u>
Coats Rose, P.C.	11/12/04	\$ 16,717	General Counsel
McCall Gibson Swedlund Barfoot PLLC	09/20/06	\$ 13,000	Auditor
L&S District Services, LLC	12/08/04	\$ 11,497 \$ -0-	Bookkeeper/ Investment Officer
Capital Consultants Management Corporation	12/01/12	\$ 59,879	District Manager
Petitt Barraza, LLC	03/15/17	\$ -0-	Engineer
Dowdey, Anderson and Associates, Inc.	05/07/08	\$ 495	Prior Engineer
Robert W. Baird	03/18/15	\$ -0-	Financial Advisor
Severn Trent Services	02/21/06	\$ 185,713	Operator
Kaufman County Tax Office	02/21/06	\$ 1,820	Tax Assessor/ Collector

See accompanying independent auditor's report.





**APPENDIX B**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



## 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

SPECIAL MEMBER

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

Email:

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

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN