OFFICIAL STATEMENT DATED AUGUST 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 SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

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

NEW ISSUE – Book Entry Only

Utility Bonds: S&P (BAM Insured) .... "AA"
Road Bonds:..................... Not Rated or Insured

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY

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

$5,960,000 **Unlimited Tax Utility Bonds** **Series 2018**	**$1,140,000** **Unlimited Tax Road Bonds** **Series 2018**

Interest accrues from: September 1, 2018

Due: September 1, as shown on inside cover hereof

The $5,960,000 Unlimited Tax Utility Bonds, Series 2018 (the "Utility Bonds"), and $1,140,000 Unlimited Tax Road Bonds, Series 2018 (the "Road Bonds"), are obligations of Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District") and are not obligations of the State of Texas; Parker County, Texas; the City of Fort Worth, Texas; or any entity other than the District. The Utility Bonds and the Road Bonds are hereinafter referred to collectively as the "Bonds." Neither the full faith and credit nor the taxing power of the State of Texas; Parker County, Texas; the City of Fort Worth, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by ZB, National Association, dba Amegy Bank, Houston, Texas, or any successor paying agent/registrar (the "Paying Agent/Registrar") directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System."

Principal of the Bonds is payable to the registered owner(s) of the Bonds (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 accrues from September 1, 2018, is payable on March 1, 2019, and each September 1 and March 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. 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 denominations of $5,000 of principal or any integral multiple thereof in fully registered form only.

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

The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of two separate ad valorem taxes, each without legal limitation as to rate or amount, levied annually by the District upon all taxable property located within the District. See "THE BONDS – Source of Payment."

The scheduled payment of principal of and interest on the Utility Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Utility Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY.**

The municipal bond insurance policy to be issued by Build America Mutual Assurance Company will guarantee only the scheduled payment of principal of and interest on the Utility Bonds when due. See "MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS" herein. The scheduled payment of principal of and interest on the Road Bonds is not guaranteed under a municipal bond insurance policy.

Investment in the Bonds is subject to certain risk factors. Prospective purchasers should review this entire Official Statement, including particularly the section of this Official Statement entitled "RISK FACTORS," before making an investment decision. See "RISK FACTORS."

The Bonds are offered subject to prior sale, when, as, and if issued by the District and accepted by the winning bidder for each series of the Bonds (collectively, the "Initial Purchaser"), subject to the approval of the Attorney General of Texas and of Coats Rose, P.C., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as Disclosure Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about September 11, 2018. See "LEGAL MATTERS."

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

$5,960,000 Unlimited Tax Utility Bonds, Series 2018

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	$150,000	5.500%	2.000%	61771K AZ7	2029 (c)	$215,000	3.000%	3.200%	61771K BJ2
2021	155,000	5.500%	2.100%	61771K BA1	2030 (c)	225,000	3.000%	3.300%	61771K BK9
2022	165,000	5.500%	2.250%	61771K BB9	2031 (c)	235,000	3.125%	3.400%	61771K BL7
2023	170,000	5.500%	2.400%	61771K BC7	2032 (c)	245,000	3.250%	3.500%	61771K BM5
2024 (c)	175,000	5.500%	2.400%	61771K BD5	2033 (c)	255,000	3.375%	3.600%	61771K BN3
2025 (c)	185,000	5.500%	2.410%	61771K BE3	2034 (c)	265,000	3.500%	3.650%	61771K BP8
2026 (c)	190,000	5.500%	2.420%	61771K BF0	2035 (c)	275,000	3.500%	3.700%	61771K BQ6
2027 (c)	200,000	3.000%	3.000%	61771K BG8	2036 (c)	285,000	3.625%	3.750%	61771K BR4
2028 (c)	205,000	3.000%	3.100%	61771K BH6					

$610,000 Utility Term Bonds Due September 1, 2038 (c) (d), Interest Rate: 3.625% (Price: $97.565) (a), CUSIP No. 61771K BT0 (b)

$660,000 Utility Term Bonds Due September 1, 2040 (c) (d), Interest Rate: 3.750% (Price: $98.379) (a), CUSIP No. 61771K BV5 (b)

$1,095,000 Utility Term Bonds Due September 1, 2043 (c) (d), Interest Rate: 3.750% (Price: $97.775) (a), CUSIP No. 61771K BY9 (b)

$1,140,000 Unlimited Tax Road Bonds, Series 2018

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	$30,000	3.000%	2.000%	61771K BZ6	2029 (c)	$40,000	3.500%	3.500%	61771K CJ1
2021	30,000	3.000%	2.250%	61771K CA0	2030 (c)	45,000	3.500%	3.600%	61771K CK8
2022	30,000	3.000%	2.500%	61771K CB8	2031 (c)	45,000	3.625%	3.650%	61771K CL6
2023	30,000	3.000%	2.750%	61771K CC6	2032 (c)	45,000	3.625%	3.700%	61771K CM4
2024 (c)	35,000	3.000%	3.000%	61771K CD4	2033 (c)	50,000	3.750%	3.750%	61771K CN2
2025 (c)	35,000	3.000%	3.100%	61771K CE2	2034 (c)	50,000	3.750%	3.800%	61771K CP7
2026 (c)	35,000	3.125%	3.200%	61771K CF9	2035 (c)	55,000	3.750%	3.850%	61771K CQ5
2027 (c)	40,000	3.250%	3.300%	61771K CG7	2036 (c)	55,000	3.750%	3.900%	61771K CR3
2028 (c)	40,000	3.375%	3.400%	61771K CH5	2037 (c)	55,000	3.875%	3.950%	61771K CS1

$395,000 Road Term Bonds Due September 1, 2043 (c) (d), Interest Rate: 4.000% (Price: $100.000) (a), CUSIP No. 61771K CY8 (b)

(a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.

(b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.

(c) Bonds maturing on September 1, 2024, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on September 1, 2023, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – *Optional Redemption*."

(d) Subject to mandatory redemption by lot or other method of random selection on September 1 in the years and in the amounts set forth herein under "THE BONDS – Redemption Provisions – *Mandatory Redemption*."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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 Street, 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 Initial Purchaser, and thereafter only as specified in "SOURCES OF INFORMATION – Updating the Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

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

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Utility Bonds or the advisability of investing in the Utility 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 FOR THE UTILITY BONDS" and "APPENDIX B – Specimen Municipal Bond Insurance Policy."

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Utility Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Utility Bonds Initial Purchaser") to purchase the Utility Bonds bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 97.055706% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.882772%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

After requesting competitive bids for the Road Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by RBC Capital Markets, LLC (the "Road Bonds Initial Purchaser") to purchase the Road Bonds bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 98.000000% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.925726%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

Throughout this Official Statement, the term "Initial Purchaser" refers to the Utility Bonds Initial Purchaser in its capacity as purchaser of the Utility Bonds as well as the Road Bonds Initial Purchaser as purchaser of the Road Bonds.

Prices and Marketability

Subject to certain restrictions described in the Official Notices of Sale, the District has no control over the reoffering yields or prices of the Bonds or over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold, or traded in the secondary market.

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

Subject to certain restrictions described in the Official Notices of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

Delivery of Official Statements

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

MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS

Bond Insurance Policy

Concurrently with the issuance of the Utility Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Utility Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Utility Bonds when due as set forth in the form of the Policy attached as "APPENDIX B" to this Official Statement.

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

Build America Mutual Assurance Company

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

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

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. 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 Utility 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 Utility Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Utility 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 Utility Bonds, nor does it guarantee that the rating on the Utility Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $518.3 million, $97.4 million and $420.9 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, 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 Utility Bonds or the advisability of investing in the Utility Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under this heading "MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS."

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/creditinsights/. (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/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Utility 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 Utility Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Utility Bonds, whether at the initial offering or otherwise.

RATING ON THE UTILITY BONDS

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

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

MUNICIPAL BOND INSURANCE AND RATING ON THE ROAD BONDS

The District made applications for a commitment for municipal bond insurance on the Road Bonds, however such insurance was not purchased for the Road Bonds. The District is not aware of any rating assigned to the Road Bonds.

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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 District	Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District"), a political subdivision of the State of Texas, is located in Parker County, Texas. See "THE DISTRICT."
The Bonds	The District's $5,960,000 Unlimited Tax Utility Bonds, Series 2018 (the "Utility Bonds"), are dated September 1, 2018, and mature on September 1 in the years and in the principal amounts as shown on the inside cover page hereof. The District's $1,140,000 Unlimited Tax Road Bonds, Series 2018 (the "Road Bonds"), are also dated September 1, 2018, and mature on September 1 in the years and in the amounts as shown on the inside cover page hereof. The Utility Bonds and the Road Bonds are collectively referred to throughout this Official Statement as the "Bonds." Interest on the Bonds accrues from September 1, 2018, at the rates shown on the inside cover hereof and is payable on March 1, 2019, and on each September 1 and March 1 thereafter until maturity or prior redemption. The Bonds are offered in fully registered form in integral multiples of $5,000 of principal amount for any one maturity. See "THE BONDS – General."
Redemption	The Bonds maturing on and after September 1, 2024, are subject to redemption prior to maturity at the option of the District, in whole or in part, on September 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See "THE BONDS – Redemption Provisions – *Optional Redemption*." The Utility Bonds that mature on September 1 in each of the years 2038, 2040, and 2043 and the Road Bonds that mature on September 1, 2043, are term bonds that are also subject to mandatory redemption as set out herein under "THE BONDS – Redemption Provisions – *Mandatory Redemption*."
Authority for Issuance	The Utility Bonds are the first series of unlimited tax bonds to be issued by the District for the purpose of purchasing, constructing, acquiring, or maintaining water, sewer, and drainage facilities to serve the District (the "Utility System"), and the Road Bonds represent the second series of unlimited tax bonds to be issued by the District for the purpose of purchasing, constructing, acquiring, or maintaining a road system serving the District (the "Road System"). At an election held within the District on November 3, 2009, voters of the District authorized the District's issuance of a total of $73,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Utility System; a total of $109,500,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Utility System; a total of $28,200,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System; and a total of $42,300,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Road System.

The Utility Bonds are issued as authorized by the following: an order of the Texas Commission on Environmental Quality ("TCEQ") dated June 13, 2018, approving the District's issuance of the Utility Bonds; an order adopted by the Board of Directors of the District authorizing the issuance of the Utility Bonds (the "Utility Bond Order"); an election held within the District on November 3, 2009; and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution.

The Road Bonds are issued as authorized by the following: an order adopted by the Board of Directors of the District authorizing the issuance of the Road Bonds (the "Road Bond Order"); an election held within the District on November 3, 2009; the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution; and Section 52 of Article III of the Texas Constitution. See "THE BONDS – Authority for Issuance."

Source of Payment... Principal of and interest on the Bonds are payable from the proceeds of two separate ad valorem taxes, each without legal limitation as to rate or amount, levied upon all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas; Parker County, Texas; the City of Fort Worth, Texas; or any entity other than the District. See "THE BONDS – Source of Payment."

Payment Record.. The District has never defaulted on the timely payment of debt service due on its bonded indebtedness.

Outstanding Bonds .... The District has previously issued one series of unlimited tax bonds: $2,850,000 Unlimited Tax Road Bonds, Series 2017. As of August 1, 2018, all $2,850,000 principal amount remains outstanding (the "Outstanding Bonds").

Short-Term Debt... In connection with the Utility Bonds, the District has issued its $3,155,000 Bond Anticipation Note, Series 2018, dated January 30, 2018 (the "BAN"), and distributed proceeds from sale of the BAN as described below. The BAN accrues interest at a rate of 3.00% per year (computed on the basis of a 360-day year) and matures on January 29, 2019, unless called for redemption prior to maturity.

Use of Proceeds from Utility Bonds.............. Proceeds from sale of the Utility Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the FG Aledo (herein defined) for a portion of the construction costs set out herein under "THE BONDS – Use and Distribution of Utility Bond Proceeds." Proceeds of the Utility Bonds will also be used to: reimburse the FG Aledo for the portion of said construction costs that was not reimbursed by the BAN, pay eighteen (18) months of capitalized interest on the Utility Bonds, and pay costs of issuance associated with the BAN and the Utility Bonds. See "THE BONDS – Use and Distribution of Utility Bond Proceeds" for further information.

Use of Proceeds from Road Bonds................ A portion of the proceeds of the Road Bonds will be used to reimburse FG Aledo for certain road improvements and related

	engineering costs as shown herein under "THE BONDS – Use and Distribution of Road Bond Proceeds." Additionally, proceeds from the Road Bonds will be used to pay developer interest, eighteen (18) months of capitalized interest on the Road Bonds, and certain costs of issuance of the Road Bonds. See "THE BONDS – Use and Distribution of Road Bond Proceeds."
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, and represents that the total amount of tax-exempt obligations (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."
Insurance & Rating on the Utility Bonds	Concurrently with the issuance of the Utility Bonds, Build America Mutual Assurance Company ("BAM") will issue its municipal bond insurance policy for the Utility Bonds. See "MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS" and "APPENDIX B." The Utility Bonds are expected to receive an insured rating of "AA" from S&P Global Ratings, solely in reliance upon the issuance of the municipal bond insurance policy by BAM at the time of delivery of the Utility Bonds. See "RATING ON THE UTILITY BONDS" above.
Insurance & Rating on the Road Bonds	Municipal bond insurance was not purchased for the Road Bonds. The District is not aware of any rating assigned to the Road Bonds.
Bond Counsel	Coats Rose, P.C., Dallas, Texas.
Disclosure Counsel	Orrick, Herrington & Sutcliffe LLP, Houston, Texas.
Financial Advisor	Robert W. Baird & Co. Incorporated, Houston, Texas.
Paying Agent/Registrar	ZB, National Association, dba Amegy Bank, Houston, Texas.

THE DISTRICT

Description	The District is a political subdivision of the State of Texas located in Parker County, Texas, approximately 4 miles north of the City of Aledo, Texas, approximately 15 miles west of the City of Fort Worth, Texas, and wholly within the extraterritorial jurisdiction of the City of Fort Worth, Texas. The District is bordered on the north by Morningstar Ranch Municipal Utility District No. 2 of Parker County ("MUD 2"); on the west by MUD 2 and Farmer Road; and on the south by Old Weatherford Road. The District is located in the boundaries of Aledo Independent School District. See "THE DISTRICT."
Authority	The District was created by order of the TCEQ dated August 3, 2009, and is vested with all of the rights, duties, powers, privileges, authority, and functions conferred by the TCEQ and the general laws of the State of Texas relating to municipal utility districts, including, without limitation, those conferred by Section 54.234 of the Texas Water Code, which authorize the District to finance certain major thoroughfares, arterial, and feeder roads under the authority of Section 52 of Article III of the Texas Constitution. See "THE DISTRICT."
Development Within the District	The District comprises approximately 552 total acres of land of which, to date, approximately 121 acres (475 lots) have been developed as the single-family residential subdivision of

Morningstar, Sections 5-1, 5-2, 6-1, 6-2, 7-1, 8-1, and 10-2. As of July 26, 2018, such single-family residential development in the District included approximately 339 completed homes (approximately 327 of which being occupied, 6 unoccupied, and 6 model homes), approximately 48 homes under construction, and approximately 88 developed but vacant lots. Additionally, as of July 26, 2018, approximately 100 acres (435 single-family lots) were under development as Morningstar, Sections 5-3, 6-3, 6-4, 7-2, and 8-2. The remaining land in the District consists of approximately 7 acres under development for a recreation center, approximately 29 undeveloped acres dedicated to development of a school and commercial property, approximately 193 undeveloped but developable acres, and approximately 102 undevelopable acres. See "DEVELOPMENT STATUS OF THE DISTRICT" and "MORNINGSTAR."

Morningstar .... The District is part of the 737-acre, master-planned community known as "Morningstar." Located along Interstate 20, Morningstar offers its residents ease of access to places of work in Fort Worth, Texas, as well as a number of amenities including a clubhouse with resort-style pools, cabanas, play yards, and a lakeside amphitheater. Morningstar also offers its residents miles of hike and bike trails, open green spaces, and a community center. Two municipal utility districts encompass Morningstar: the District and MUD 2. To date, development in Morningstar has occurred exclusively in the District. See "MORNINGSTAR."

Developers/Principal Landowners .... The following entities are either developers of land within the District or principal owners of land in the District: (i) FG Aledo Development, LLC, a Texas limited liability company ("FG Aledo"), managed by KTFW Investments, Inc., a Texas corporation; (ii) FWFW Holdings, Inc., a Texas corporation ("FWFW"), managed by Kim Gill and Timothy Fleet; (iii) Wilbow-Morningstar Development Corporation, a Texas corporation ("Wilbow"), managed by Chas Fitzgerald, Director, William D. Bowness, Director, and Natasha Rose Bowness, Director; and (iv) D.R. Horton-Texas, Ltd., a Texas limited partnership, which is controlled by D.R. Horton, Inc., a Delaware corporation, a publicly traded corporation. FG Aledo and Wilbow are referred to herein collectively as the "Developers." See "THE DEVELOPERS/PRINCIPAL LANDOWNERS" and "RISK FACTORS – Economic Factors Affecting Taxable Values."

Homebuilders Within the District.................. Homebuilders active in the District include DR Horton, Highland Homes, Impression Homes, and Rendition Homes. Homes range in price from $250,000–$450,000 and in size from 1,800–4,500 square feet. See "DEVELOPMENT STATUS OF THE DISTRICT" and "THE DEVELOPERS/PRINCIPAL LANDOWNERS – Lot-Sales Contracts."

Regional Facilities .... Water supply and wastewater treatment is provided by the City of Fort Worth, Texas, pursuant to that certain Utility Agreement for Morningstar. See "THE SYSTEM."

Development Agreement .... Land within Morningstar is being developed pursuant to the terms of a Development Agreement entered into between the City of Fort Worth, Texas, and the initial owners of land in the District and MUD

2, as amended from time to time. See "THE DISTRICT – Development Agreement."

RISK FACTORS

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

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SELECTED FINANCIAL INFORMATION

2018 Taxable Assessed Valuation	$ 73,679,955	(a)
Estimated Valuation as of June 15, 2018	$ 104,479,000	(b)
Direct Debt:		
The Outstanding Bonds (as of August 1, 2018)	$ 2,850,000	
The Utility Bonds	$ 5,960,000	
The Road Bonds	$ 1,140,000	
Total	$ 9,950,000	
Estimated Overlapping Debt	$ 4,297,082	(c)
Total Direct and Estimated Overlapping Debt	$ 14,247,082	(c)
Direct Debt Ratios:		
Based on the 2018 Taxable Assessed Valuation	13.50 %	
Based on the Estimated Valuation as of June 15, 2018	9.52 %	
Direct and Estimated Overlapping Debt Ratios:		
Based on the 2018 Taxable Assessed Valuation	19.34 %	
Based on the Estimated Valuation as of June 15, 2018	13.64 %	
Utility System Debt Service Fund Balance (as of Delivery of the Utility Bonds)	$347,803	(d)
Road System Debt Service Fund Balance (as of May 2, 2018)	$115,718	(e)
Operating Fund Balance (as of May 2, 2018)	$85,591	
2017 Tax Rate		
Debt Service	$0.00	(f)
Maintenance & Operation	$1.00	
Total	$1.00	
Average Annual Debt Service Requirement (2019–2043)	$622,080	(g)
Maximum Annual Debt Service Requirement (2042)	$660,906	(g)
Combined Debt Service Tax Rate per $100 of Assessed Valuation Required to Pay Average Annual Requirement (2019–2043) at 95% Tax Collections		
Based on the 2018 Taxable Assessed Valuation	$0.89	
Based on the Estimated Valuation as of June 15, 2018	$0.63	
Combined Debt Service Tax Rate per $100 of Assessed Valuation Required to Pay Maximum Annual Requirement (2042) at 95% Tax Collections		
Based on the 2018 Taxable Assessed Valuation	$0.95	
Based on the Estimated Valuation as of June 15, 2018	$0.67	

(a) Represents the taxable assessed value of all taxable property within the District as of January 1, 2018, as provided by the Parker County Appraisal District upon original certification of its 2018 tax rolls. See "TAX DATA" and "TAXING PROCEDURES."

(b) Provided by the Parker County Appraisal District for information purposes only. This estimate reflects the addition of taxable value resulting from new construction within the District from January 1, 2018, to June 15, 2018, and 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) See "DISTRICT DEBT – Estimated Overlapping Debt Statement."

(d) Represents eighteen (18) months of capitalized interest on the Utility Bonds that will be deposited into the Utility System Debt Service Fund upon delivery of the Utility Bonds. Neither Texas law nor the Utility Bond Order requires that the District maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Road System (e.g., the Outstanding Bonds and the Road Bonds).

(e) In addition, eighteen (18) months of capitalized interest on the Road Bonds will be deposited into the Road System Debt Service Fund upon delivery of the Road Bonds. Neither Texas law nor the Road Bond Order requires that the District maintain any particular sum in the Road System Debt Service Fund. Funds in the Road System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Utility System (e.g., the Utility Bonds).

(f) The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Utility System and for payment of debt service on bonds issued for the Road System; both such taxes are unlimited as to rate or amount.

(g) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District") of its $5,960,000 Unlimited Tax Utility Bonds, Series 2018 (the "Utility Bonds"), and $1,140,000 Unlimited Tax Road Bonds, Series 2018 (the "Road Bonds"). The Utility Bonds and the Road Bonds collectively are referred to as the "Bonds" throughout this Official Statement.

The Utility Bonds are issued by the District pursuant to: an order of the Texas Commission on Environmental Quality ("TCEQ") dated June 13, 2018; an order adopted by the Board of Directors of the District authorizing the issuance of the Utility Bonds (the "Utility Bond Order"); an election held within the District on November 3, 2009; and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution.

The Road Bonds are issued by the District pursuant to: an order adopted by the Board of Directors of the District authorizing the issuance of the Road Bonds (the "Road Bond Order"); an election held within the District on November 3, 2009; the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution; and Section 52 of Article III of the Texas Constitution.

The Utility Bond Order and the Road Bond Order are collectively referred to hereinafter as the "Bond Order," and unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report, or instrument.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas; Parker County, Texas; the City of Fort Worth, Texas (the "City"); or any political subdivision other than the District. The Bonds are secured by the proceeds of two separate ad valorem taxes, each without legal limitation as to rate or amount, levied upon 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 residential market in the area surrounding the District. The following entities are either developers of land within the District or principal owners of land in the District: (i) FG Aledo Development, LLC, a Texas limited liability company ("FG Aledo"), managed by KTFW Investments, Inc., a Texas corporation; (ii) FWFW Holdings, Inc., a Texas corporation ("FWFW"), managed by Kim Gill and Timothy Fleet; (iii) Wilbow-Morningstar Development Corporation, a Texas corporation ("Wilbow"), managed by Chas Fitzgerald, Director, William D. Bowness, Director, and Natasha Rose Bowness, Director; and (iv) D.R. Horton-Texas, Ltd., a Texas limited partnership, which is controlled by D.R. Horton, Inc., a Delaware corporation, a publicly traded corporation. FG Aledo and Wilbow are referred to herein collectively as the "Developers." See "THE DEVELOPERS/PRINCIPAL LANDOWNERS." The Developers' ability to successfully market property in the District can be affected by factors such as interest rates, construction costs, and consumer demand.

Decreased levels of construction would restrict the growth of property values in the District. Although, as of July 26, 2018, approximately 339 single-family homes in the District have been completed and another 48 single-family homes are under construction, the District cannot predict the pace or magnitude of future development, if any, in the District. See "DEVELOPMENT STATUS OF THE DISTRICT."

Developers' Obligations to the District: There is no commitment by or legal requirement of the Developers 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 probability of future development, if any, or the rate of future home or commercial 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 "THE DEVELOPERS/PRINCIPAL LANDOWNERS."

Concentration of Tax Base: The District's tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption "TAX DATA – Principal Taxpayers," as of January 1, 2018, the District's ten principal taxpayers owned property located in the District, the aggregate certified assessed valuation of which comprised approximately 28.48% of the District's total certified taxable assessed valuation. As also reflected under the caption "TAX DATA – Principal Taxpayers," for the 2018 tax year, the aggregate certified assessed valuation of property in the District owned by DR Horton Texas LTD, a homebuilder in the District and the District's top taxpayer, comprises approximately 8.23% of the District's total certified assessed valuation. Further, Wilbow owns property located in the District, the aggregate certified assessed valuation of which comprises approximately 3.67% of the District's total certified assessed valuation as of January 1, 2018; FWFW owns property located in the District, the aggregate certified assessed valuation of which comprises approximately 1.13% of the District's total certified assessed valuation as of January 1, 2018; and FG Aledo owns property located in the District, the aggregate certified assessed valuation of which comprises approximately 3.36% of the District's total certified assessed valuation as of January 1, 2018. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers, or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. See "DEVELOPMENT STATUS OF THE DISTRICT." Failure by one or more of the District's principal property owners to make full and timely payments of taxes due, or a decline in the District's tax base due to a diminution of the property values, may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meets its debt service requirements.

Maximum Impact on District Tax Rate: Assuming no further development, the value of the land, improvements, and other taxable property currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The taxable assessed valuation as of January 1, 2018, of all taxable property within the District is $73,679,955, and the estimated valuation as of June 15, 2018, is $104,479,000. After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds (herein defined) and the Bonds will be $660,906 (2042), and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be $622,080 (2019–2043). Assuming no increase nor decrease from the taxable assessed valuation as of January 1, 2018, a combined debt service tax rate of $0.95 per $100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement, and a combined debt service tax rate of $0.89 per $100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement. Assuming no increase to nor decrease from the estimated valuation as of June 15, 2018, a combined debt service tax rate of $0.67 per $100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement, and a combined debt service tax rate of $0.63 per $100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement. See "DISTRICT DEBT – Debt Service Requirements." For the 2017 tax year, the District levied a maintenance tax of $1.00 per $100 of assessed valuation and did not levy a debt service tax. Upon closing and delivery of the Bonds, the District will capitalized eighteen months of interest on each of the Utility Bonds and the Road Bonds.

Competitive Nature of Residential Market. The residential housing industry in and around the City is very competitive, and the District can give no assurance that the building programs which are planned by the Developers will be continued or completed. The competitive position of the Developers 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.

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 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 taxpayer's 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.

Bondholders' Remedies

The Bond Order does not provide for the appointment of a trustee to represent the interests of the registered owners of the Bonds (the "Bondholders") 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 the laws of the State of Texas, 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. A Bondholder 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 Bondholder'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 Bondholder 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 of Texas or a political subdivision of the State of Texas 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 United States Bankruptcy Court ("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.

Bankruptcy Limitation to Bondholders' Rights

Subject to the requirements of state 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 Bondholders could be adjusted in accordance with the confirmed plan of adjustment of the District's debt.

Future Debt

The Utility Bonds are the first series of unlimited tax bonds to be issued by the District for the purpose of purchasing, constructing, acquiring, or maintaining water, sewer, and drainage facilities to serve the District (the "Utility System"), and the Road Bonds represent the second series of unlimited tax bonds to be issued by the District for the purpose of purchasing, constructing, acquiring, or maintaining a road system serving the District (the "Road System"). At an election held within the District on November 3, 2009, voters of the District authorized the District's issuance of a total of $73,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Utility System; a total of $109,500,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Utility System; a total of $28,200,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System; and a total of $42,300,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Road System.

After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: $67,040,000 for purchasing, constructing, acquiring, or maintaining the Utility System; $109,500,000 for refunding bonds issued by the District for the Utility System; $24,210,000 for purchasing, constructing, acquiring, or maintaining the Road System; and $42,300,000 for refunding bonds issued by the District for the Road System.

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. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters, approved by the Board and, under certain circumstances, approved by the TCEQ). 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.

After the issuance of the Bonds, the District will owe the Developers approximately $12,000,000 for expenditures to construct the Utility System and $0 for expenditures to construct the Road System. See "DEVELOPMENT STATUS OF THE DISTRICT."

In the fourth quarter of 2018, the District anticipates that it will submit a bond application to the TCEQ for the issuance of its second series of unlimited tax bonds for the Utility System. The District expects to issue such bonds, the principal amount of which has not yet been determined, in 2019. In connection with the application to the TCEQ, the District may issue a bond anticipation note to be redeemed by the 2019 bond issue.

Based on present engineering cost estimates and on development plans supplied by the Developers, in the opinion of the District's consulting engineer, following the issuance of the Bonds, the remaining principal amount of authorized but unissued unlimited tax bonds will be sufficient to fully reimburse the Developers for the existing facilities and finance the water, sewer and drainage facilities, roads facilities necessary to serve the remaining undeveloped but developable land within the District.

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; and
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility 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.

Development Agreement

Effective August 21, 2015, the then current owners of the land in Morningstar and the City entered into a Development Agreement establishing the development standards for Morningstar and how utilities and other public services will be provided to the development. Such minimum standards could impact the ability of the Developers to compete with other developments in the area that might not be subject to such minimum standards. See "THE DISTRICT – Development Agreement."

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

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

Bond Insurance Risk Factors

For each of the Utility Bonds and the Road Bonds, the District applied for a bond insurance policy to guarantee the scheduled payment of principal and interest when due. An insurance policy was not purchased for the Road Bonds, however an insurance policy was purchased for the Utility Bonds. The following are risk factors relating to the bond insurance purchased for the Utility Bonds.

In the event of default of the payment of principal or interest with respect to the Utility Bonds when all or some becomes due, any owner of the Utility 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 Utility Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the 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 Utility 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 Utility Bonds, no assurance is given that such event will not adversely affect the market price of the Utility Bonds or the marketability (liquidity) for the Utility Bonds.

The long-term ratings on the Utility 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 Utility Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Utility Bonds or the marketability (liquidity) for the Utility Bonds. See "MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS."

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District nor the Initial Purchaser have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Utility Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the District upon request to Bond Counsel, Coats Rose, P.C., Dallas, Texas. 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 will mature on September 1 of the years and in principal amounts, and will bear interest from September 1, 2018, at the rates per annum, as set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable March 1, 2019, and thereafter on each September 1 and March 1 until maturity or redemption. The Bonds maturing on and after September 1, 2024, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2023, 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 Bondholders 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 Bondholders as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Bondholder at the risk and expense of such Bondholder.

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

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Bond 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.

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" hereinabove 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.

Outstanding Bonds

The District has previously issued one series of unlimited tax bonds: $2,850,000 Unlimited Tax Road Bonds, Series 2017. As of July 1, 2018, all $2,850,000 principal amount remains outstanding (the "Outstanding Bonds").

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:

Election Date	Purpose	Amount Authorized	Amount Issued	Remaining Authorized But Unissued
11/3/2009	Road System	$28,200,000	$3,990,000(a)	$24,210,000
11/3/2009	Road System Refunding	$42,300,000	-0-	$42,300,000
11/3/2009	Utility System	$73,000,000	$5,960,000(b)	$67,040,000
11/3/2009	Utility System Refunding	$109,500,000	-0-	$109,500,000

(a) The Outstanding Bonds and the Road Bonds.

(b) The Utility Bonds.

The Utility Bonds are issued by the District pursuant to: an order of the TCEQ dated June 13, 2018; the Utility Bond Order; an election held within the District on November 3, 2009; and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution.

The Road Bonds are issued by the District pursuant to: the Road Bond Order; an election held within the District on November 3, 2009; the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution; and Section 52 of Article III of the Texas Constitution.

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 secured by and payable from the proceeds of two separate ad valorem taxes, each without legal limitation as to rate or amount, levied upon all 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 Utility System Debt Service Fund or Road System Debt Service Fund, as applicable and defined below, 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.

Utility Funds

The Utility Bond Order confirms the creation of the Utility Capital Projects Fund (the "Utility Capital Projects Fund") and the Utility System Debt Service Fund (the "Utility System Debt Service Fund"). Accrued interest as well as eighteen (18) months of capitalized interest on the Utility Bonds will be deposited into the Utility System Debt Service Fund upon closing of the Utility Bonds. All remaining proceeds of the Utility Bonds will be deposited in the Utility Capital Projects Fund. The Utility System Debt Service Fund, which constitutes a trust fund for the benefit of the registered owners of the Utility Bonds, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Utility Bonds. Amounts on deposit in the Utility System Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Utility Bonds.

Road Funds

The Road Bond Order confirms the creation of the Road Capital Projects Fund (the "Road Capital Projects Fund") and the Road System Debt Service Fund (the "Road System Debt Service Fund" and together with the Utility System Debt Service Fund, the "Debt Service Fund"). Accrued interest as well as eighteen (18) months of capitalized interest on the Road Bonds will be deposited into the Road System Debt Service Fund upon closing of the Road Bonds. All remaining proceeds of the Road Bonds will be deposited in the Road Capital

Projects Fund. The Road System Debt Service Fund, which constitutes a trust fund for the benefit of the registered owners of the Outstanding Bonds and the Road Bonds, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds and the Road Bonds. Amounts on deposit in the Road System Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Outstanding Bonds and the Road Bonds.

Redemption Provisions

Optional Redemption

The Bonds maturing on and after September 1, 2024, shall be subject to redemption at the option of the District, in whole or from time to time in part, on September 1, 2023, 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 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.

Mandatory Redemption

The Utility Bonds that mature on September 1 in each of the years 2038, 2040, and 2043 ("Term Utility Bonds"), are also subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on September 1 in the years set out below ("Mandatory Redemption Dates") and in the amounts set forth below, subject to proportionate reductions as described below, at a redemption price of par plus accrued interest to the date of redemption:

$610,000 Term Utility Bonds Maturing on September 1, 2038

Mandatory Redemption Date	Principal Amount
September 1, 2037	$300,000
September 1, 2038	$310,000

$660,000 Term Utility Bonds Maturing on September 1, 2040

Mandatory Redemption Date	Principal Amount
September 1, 2039	$325,000
September 1, 2040	$335,000

$1,095,000 Term Utility Bonds Maturing on September 1, 2043

Mandatory Redemption Date	Principal Amount
September 1, 2041	$350,000
September 1, 2042	$365,000
September 1, 2043	$380,000

The Road Bonds that mature on September 1, 2043 (the "Term Road Bonds" and together with the Term Utility Bonds, the "Term Bonds"), are also subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on September 1 in the years set forth below

("Mandatory Redemption Dates") and in the amounts set forth below, subject to proportionate reductions as described below, at a redemption price of par plus accrued interest to the date of redemption:

$395,000 Term Road Bonds Maturing on September 1, 2043

Mandatory Redemption Date	Principal Amount
September 1, 2038	$60,000
September 1, 2039	$60,000
September 1, 2040	$65,000
September 1, 2041	$65,000
September 1, 2042	$70,000
September 1, 2043	$75,000

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the direction of the District, by the principal amount of any Term Bonds which, at least 30 days prior to a Mandatory Redemption Date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with monies in the Utility System Debt Service Fund or Road System Debt Service Fund, as applicable, at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

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 Bondholders 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 total of $73,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Utility System; a total of $109,500,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Utility System; a total of $28,200,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System; and a total of $42,300,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Road System.

The Utility Bonds are the first series of unlimited tax bonds to be issued by the District for the purpose of acquiring or constructing the Utility System, and the Road Bonds represent the second series of unlimited tax bonds to be issued by the District for the purpose of acquiring or constructing the Road System. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: $67,040,000 for purchasing, constructing, acquiring, or maintaining the Utility System; $109,500,000 for refunding bonds issued by the District for the Utility System; $24,210,000 for purchasing, constructing, acquiring, or maintaining the Road System; and $42,300,000 for refunding bonds issued by the District for the Road System. See "THE BONDS – Authority for Issuance."

Any bonds issued by the District must be approved by the Attorney General of Texas. Approval of the TCEQ is not necessary for the issuance of bonds to finance the Road System but is required for the issuance of bonds to finance the Utility System. See "THE DISTRICT – General." In the fourth quarter of 2018, the District anticipates that it will submit a bond application to the TCEQ for the issuance of its second series of unlimited tax bonds for the Utility System. The District expects to issue such bond 2019. In connection with the application to the TCEQ, the District may issue a bond anticipation note to be redeemed by the 2019 bond issue.

The 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. See "RISK FACTORS – Future Debt."

Amendments to the Bond Order

The District may, without the consent of or notice to any Bondholders, amend the Bond Order in any manner not detrimental to the interests of the Bondholders, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Bondholders 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 Bondholders 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.

Bondholders' 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 of Texas or a political subdivision of the State of Texas 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 "–Bankruptcy Limitation to Bondholders' Rights" below.

Bankruptcy Limitation to Bondholders' Rights

The enforceability of the rights and remedies of the Bondholders 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 Bondholder 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 Bondholder'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.

Short-Term Debt

In connection with the Utility Bonds, the District has issued its $3,155,000 Bond Anticipation Note, Series 2018, dated January 30, 2018 (the "BAN"), and distributed proceeds from sale of the BAN as described on the following page hereof. The BAN accrues interest at a rate of 3.00% per year (computed on the basis of a 360-day year) and matures on January 29, 2019, unless called for redemption prior to maturity.

Use and Distribution of Utility Bond Proceeds

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

Construction Costs	District's Share
A. Developer Contribution Items	
None	
B. District Contribution Items	
1. Off-Site Sanitary Sewer	$ 1,133,555
2. Off-Site Water Line (WS-4)	1,089,638
3. Off-Site Water Line (WS-5)	792,000
4. Engineering, Testing, and Surveying (Items 1–3)	596,710
5. Off-Site Easement Acquisition (Items 1–3)	258,325
6. Stormwater Pollution Prevention Plan Costs (Items 2–3)	23,012
7. Impact Fees (475 Lots)	512,715
Total District Contribution Items	$ 4,405,955
Total Construction Costs (73.93% of Bond Issue Requirement)	$ 4,405,955
Non-Construction Costs	
A. Legal Fees	$ 134,200
B. Fiscal Agent Fees	119,200
C. Interest	
1. Capitalized Interest	347,803
2. Developer Interest	383,716
3. Bond Anticipation Note Interest	58,893
D. Bond Discount	175,480
E. Bond Issuance Expenses	28,927
F. Bond Anticipation Note Expenses	83,892
G. Market Study	6,750
H. Bond Application Report Cost	78,400
I. Attorney General Fee (0.10%)	5,960
J. TCEQ Bond Issuance Fee (0.25%)	14,900
K. Contingency	115,924
Total Non-Construction Costs (26.07% of Bond Issue Requirement)	$ 1,554,045
TOTAL BOND ISSUE REQUIREMENT	**$ 5,960,000**

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ, where required. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

Use and Distribution of Road Bond Proceeds

Proceeds from the sale of the Road Bonds will be used to reimburse the FG Aledo for the road improvements and related engineering costs shown below. Additionally, proceeds from the Road Bonds will be used to pay certain costs of issuance of the Road Bonds.

Construction Costs	Amount
A. Morningstar Section 5, Phase 3 – Paving and Street Lighting	$ 243,078
B. Morningstar Section 6, Phase 1 – Paving and Street Lighting	81,429
C. Morningstar Section 7, Phase 1 – Paving and Street Lighting	26,155
D. Morningstar Section 10, Phase 2 – Paving and Street Lighting	142,395
E. Engineering and Materials Testing	140,669
F. Land Acquisition Costs	267,446
Total Construction Costs	$ 901,172
Non-Construction Costs	
A. Legal Fees	$ 33,500
B. Financial Advisor Fees	22,800
C. Interest	
1. Capitalized Interest	62,231
2. Developer Interest	32,550
D. Bond Discount	28,800
E. Bond Issuance Expenses	44,100
F. Attorney General Fee (0.10%)	1,140
G. Contingency	19,707
Total Non-Construction Costs	$ 238,828
TOTAL BOND ISSUE REQUIREMENT	**$ 1,140,000**

The construction costs described above were compiled by the Engineer (hereinafter defined), based, in some cases, on the estimated costs of facilities. Non-construction costs are based upon either contract amounts or estimates. In the instance that estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for roads or improvements in aid thereof. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes

DISTRICT DEBT

General

2018 Taxable Assessed Valuation	$ 73,679,955	(a)
Estimated Valuation as of June 15, 2018	$ 104,479,000	(b)
Direct Debt:		
The Outstanding Bonds (as of August 1, 2018)	$ 2,850,000	
The Bonds	$ 7,100,000	
Total	$ 9,950,000	
Estimated Overlapping Debt	$ 4,297,082	(c)
Total Direct and Estimated Overlapping Debt	$ 14,247,082	(c)
Direct Debt Ratios:		
Based on the 2018 Taxable Assessed Valuation	13.50 %	
Based on the Estimated Valuation as of June 15, 2018	9.52 %	
Direct and Estimated Overlapping Debt Ratios:		
Based on the 2018 Taxable Assessed Valuation	19.34 %	
Based on the Estimated Valuation as of June 15, 2018	13.64 %	
Utility System Debt Service Fund Balance (as of Delivery of the Utility Bonds)	$347,803	(d)
Road System Debt Service Fund Balance (as of May 2, 2018)	$115,718	(e)
Operating Fund Balance (as of May 2, 2018)	$85,591	
2017 Tax Rate		
Debt Service	$0.00	(f)
Maintenance & Operation	$1.00	
Total	$1.00	
Average Annual Debt Service Requirement (2019–2043)	$622,080	(g)
Maximum Annual Debt Service Requirement (2042)	$660,906	(g)
Combined Debt Service Tax Rate per $100 of Assessed Valuation Required to Pay Average Annual Requirement (2019–2043) at 95% Tax Collections		
Based on the 2018 Taxable Assessed Valuation	$0.89	
Based on the Estimated Valuation as of June 15, 2018	$0.63	
Combined Debt Service Tax Rate per $100 of Assessed Valuation Required to Pay Maximum Annual Requirement (2042) at 95% Tax Collections		
Based on the 2018 Taxable Assessed Valuation	$0.95	
Based on the Estimated Valuation as of June 15, 2018	$0.67	
Single-Family Homes (including 48 under construction) as of July 26, 2018	387	(h)

(a) Represents the taxable assessed value of all taxable property within the District as of January 1, 2018, as provided by the Parker County Appraisal District upon original certification of its 2018 tax rolls. See "TAX DATA" and "TAXING PROCEDURES."

(b) Provided by the Parker County Appraisal District for information purposes only. This estimate reflects the addition of taxable value resulting from new construction within the District from January 1, 2018, to June 15, 2018, and 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) See "DISTRICT DEBT – Estimated Overlapping Debt Statement."

(d) Represents eighteen (18) months of capitalized interest on the Utility Bonds that will be deposited into the Utility System Debt Service Fund upon delivery of the Utility Bonds. Neither Texas law nor the Utility Bond Order requires that the District maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Road System (e.g., the Outstanding Bonds and the Road Bonds).

(e) In addition, eighteen (18) months of capitalized interest on the Road Bonds will be deposited into the Road System Debt Service Fund upon delivery of the Road Bonds. Neither Texas law nor the Road Bond Order requires that the District maintain any particular sum in the Road System Debt Service Fund. Funds in the Road System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Utility System (e.g., the Utility Bonds).

(f) The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Utility System and for payment of debt service on bonds issued for the Road System; both such taxes are unlimited as to rate or amount.

(g) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."

(h) Approximately 327 homes are occupied.

Estimated Overlapping Debt Statement

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

Taxing Jurisdiction	Outstanding Debt June 30, 2018	Overlapping Percent	Overlapping Amount
Parker County	$ 121,435,000	0.58%	$ 705,862
Parker County Junior College District	5,035,000	0.58%	29,380
Aledo Independent School District	171,334,087	2.08%	3,561,840
Total Estimated Overlapping Debt			$ 4,297,082
The District (a)			$ 9,950,000
Total Direct & Estimated Overlapping Debt (b)			$14,247,082

(a) The Outstanding Bonds and the Bonds.

(b) Includes the Outstanding Bonds and the Bonds.

Debt Ratios

Direct Debt Ratios (a):	
Based on the 2018 Taxable Assessed Valuation	13.50 %
Based on the Estimated Valuation as of June 15, 2018	9.52 %
Direct and Estimated Overlapping Debt Ratios (b):	
Based on the 2018 Taxable Assessed Valuation	19.34 %
Based on the Estimated Valuation as of June 15, 2018	13.64 %

(c) The Outstanding Bonds and the Bonds.

(d) Includes the Outstanding Bonds and the Bonds.

Debt Service Requirements

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

Calendar Year	Outstanding Debt Service	Plus: The Utility Bonds Principal	Plus: The Utility Bonds Interest	Plus: The Utility Bonds Debt Service	Plus: The Road Bonds Principal	Plus: The Road Bonds Interest	Plus: The Road Bonds Debt Service	Total Debt Service
2019	$ 99,213	–	$231,869	$231,869	–	$41,488	$41,488	$372,569
2020	179,213	$150,000	231,869	381,869	$30,000	41,488	71,488	632,569
2021	177,613	155,000	223,619	378,619	30,000	40,588	70,588	626,819
2022	180,933	165,000	215,094	380,094	30,000	39,688	69,688	630,714
2023	184,063	170,000	206,019	376,019	30,000	38,788	68,788	628,869
2024	181,903	175,000	196,669	371,669	35,000	37,888	72,888	626,459
2025	184,563	185,000	187,044	372,044	35,000	36,838	71,838	628,444
2026	186,903	190,000	176,869	366,869	35,000	35,788	70,788	624,559
2027	188,903	200,000	166,419	366,419	40,000	34,694	74,694	630,015
2028	185,648	205,000	160,419	365,419	40,000	33,394	73,394	624,460
2029	187,288	215,000	154,269	369,269	40,000	32,044	72,044	628,600
2030	187,888	225,000	147,819	372,819	45,000	30,644	75,644	636,350
2031	188,288	235,000	141,069	376,069	45,000	29,069	74,069	638,425
2032	188,488	245,000	133,725	378,725	45,000	27,438	72,438	639,650
2033	188,488	255,000	125,763	380,763	50,000	25,806	75,806	645,056
2034	188,775	265,000	117,156	382,156	50,000	23,931	73,931	644,863
2035	188,881	275,000	107,881	382,881	55,000	22,056	77,056	648,819
2036	188,806	285,000	98,256	383,256	55,000	19,994	74,994	647,056
2037	188,369	300,000	87,925	387,925	55,000	17,931	72,931	649,225
2038	187,744	310,000	77,050	387,050	60,000	15,800	75,800	650,594
2039	191,931	325,000	65,813	390,813	60,000	13,400	73,400	656,144
2040	190,538	335,000	53,625	388,625	65,000	11,000	76,000	655,163
2041	188,950	350,000	41,063	391,063	65,000	8,400	73,400	653,413
2042	192,169	365,000	27,938	392,938	70,000	5,800	75,800	660,906
2043	–	380,000	14,250	394,250	75,000	3,000	78,000	472,250
Total	$4,395,550	$5,960,000	$3,389,488	$9,349,488	$1,140,000	$666,950	$1,806,950	$15,551,988

Average Annual Debt Service Requirement (2019–2043) $622,080

Maximum Annual Debt Service Requirement (2042) $660,906

TAXING PROCEDURES

Set forth below is a summary of certain provisions of the Texas Tax Code (the "Tax Code") relating to the District's ability to levy and collect property taxes on property within the District. Provisions of the Tax Code are complex and are not fully summarized herein. Reference is made to the 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 Utility Bonds, any additional bonds payable from taxes that the District may hereafter issue for the Utility System, and to pay the expenses of assessing and collecting such taxes. The Board is further 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 Outstanding Bonds, the Road Bonds, any additional bonds payable from taxes that the District may hereafter issue for the Road System, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy each of such taxes 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. For the 2017 tax year, the District levied a total tax of $1.00 per $100 of assessed valuation, all of which being for maintenance and operation purposes, and did not levy a tax for debt service. See "TAX DATA – Tax Rate Limitation."

Tax Code and County-Wide Appraisal District

The Tax Code specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized herein. The 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 Parker County Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Parker County, including the District. Such appraisal values will be subject to review and change by the Parker 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 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 appraisers 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 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 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

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. 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 the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between $5,000 and $12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption 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. In addition, a partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Tax Code authorizes the governing body of each political subdivision in the State of Texas 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 never adopted a homestead exemption.

Freeport Goods and Goods-in-Transit: Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing, or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft, and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in- transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. Freeport goods and goods-in-transit are exempted from taxation by the District.

Tax Abatement

Parker County may designate all or part of the area within the District as a reinvestment zone. Thereafter, either Aledo Independent School District or the District, at the option and discretion of each entity, 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 Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code.

The 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 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 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 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 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. The District is 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 Tax Code.

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 10. 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 based on valuation of property within the District as of the preceding January 1.

Taxes are due October 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 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.

Property owners who are disabled or at least 65 years of age or older and qualify to receive a homestead exemption, may pay property taxes in four equal installments following a disaster. Further, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. Effective September 1, 2017, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead.

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 of Texas 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 Utility Bonds and any future tax-supported bonds that may be issued by the District for the Utility System. Taxable property within the District is also 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 Outstanding Bonds, the Road Bonds, and any future tax-supported bonds that may be issued by the District for the Road System. Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due November 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. In the Bond Order, the Board covenants to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, taxes that are ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such taxes 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 $1.00 per $100 of assessed valuation, for operation and maintenance purposes. For the 2017 tax year, the District levied a total tax of $1.00 per $100 of assessed valuation, all of which being for maintenance and operation purposes, and did not levy a tax for debt service. Upon closing and delivery of the Bonds, eighteen (18) months of capitalized interest on the Bonds will be deposited into the District's Debt Service Fund.

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).
Maintenance:	$1.00 per $100 assessed valuation.

Historical Tax Collections

The following table illustrates the collection history of the District for the 2016 and 2017 tax years:

Tax Year	Assessed Valuation	Tax Rate	Adjusted Levy	Collections Current Year	Current Year Ended Sept. 30	Collections 06/30/2018
2016	$ 1,994,090	$1.00	$ 19,941	100%	2017	100%
2017	10,734,406	$1.00	107,344	100%	2018	100%

Tax Rate Distribution

The following table sets out the tax rates levied by the District for the 2016 and 2017 tax years:

	2017	2016
Debt Service	$0.000	$0.000
Maintenance and Operations	1.000	1.000
Total	$1.000	$1.000

Analysis of Tax Base

The following table illustrates the District's total taxable assessed value in the tax years 2016–2018 by type of property:

Type of Property	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation
Land	$29,049,060	$8,673,467	$3,469,380
Improvements	46,632,954	3,231,036	18,082
Personal Property	769,870	358,970	0
Exemptions	(2,771,929)	(1,529,067)	(1,493,372)
Total	$73,679,955	$10,734,406	$1,994,090

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2018:

Taxpayer	Type of Property	Assessed Taxable Value 2018 Tax Roll	Percentage of District's 2018 Taxable Value
DR Horton Texas LTD (a)	Land & Improvements	$6,063,200	8.23%
HMH Lifestyles LP	Land & Improvements	3,659,240	4.97
Impression Homes LLC	Land & Improvements	3,108,230	4.22
Wilbow-Morningstar Development Corp. (a)	Land	2,702,950	3.67
FG Aledo Development LLC (a)	Land & Improvements	2,478,640	3.36
Highland Homes-Dallas LLC	Land & Improvements	949,910	1.29
FWFW Holdings Inc. (a)	Land	831,423	1.13
Evervest Oper LLC	Minerals	417,460	0.57
Homeowner	Land & Improvements	387,440	4.22
Homeowner	Land & Improvements	387,070	3.67
Total		$20,985,563	28.48%

(a) See "THE DEVELOPERS/PRINCIPAL LANDOWNERS" below and "Analysis of Tax Base" above.

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 on the Outstanding Bonds and the Bonds if no growth in the District occurs beyond the taxable assessed valuation as of January 1, 2018 ($73,679,955), or the estimated valuation as of June 15, 2018 ($104,479,000). The following further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirement (2019–2043)	$622,080
Combined Debt Service Tax of $0.89 on the 2018 Taxable Assessed Valuation produces	$622,964
Combined Debt Service Tax of $0.63 on the Estimated Valuation as of June 5, 2018, produces	$625,307
Maximum Annual Debt Service Requirement (2042)	$660,906
Combined Debt Service Tax of $0.95 on the 2018 Taxable Assessed Valuation produces	$664,962
Combined Debt Service Tax of $0.67 on the Estimated Valuation as of June 5, 2018, produces	$665,009

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 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.

Taxing Jurisdiction	2017 Tax Rate
Parker County	$0.31171900
Parker County Lateral Road	$0.07848000
Parker County Hospital District	$0.11152000
Parker County Emergency Services District No. 1	$0.10000000
Parker County Junior College District	$0.11948000
Aledo Independent School District	$1.59500000
The District	$1.00000000
	$3.31619900

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 Order of the TCEQ dated August 3, 2009, and 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. The Order of the TCEQ creating the District authorizes it to finance major thoroughfares, arterial and feeder 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; and the control and diversion of storm water. 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 as created encompassed approximately 375 acres. Effective March 30, 2017, the District annexed approximately 177 acres and currently encompasses approximately 552 acres. The District is situated wholly within in Parker County, Texas, and is located approximately 4 miles north of the City of Aledo, Texas, approximately 15 miles west of the City, and wholly within the extraterritorial jurisdiction of the City. The District is bordered on the north by Morningstar Ranch Municipal Utility District No. 2 of Parker County ("MUD 2"); on the west by MUD 2 and Farmer Road; and on the south by Old Weatherford Road. The District is located entirely within Aledo Independent School District.

Creation and Operation Agreement

The original owners of land within the District entered into an Agreement Concerning Creation and Operation of the District with the City, which agreement has been assumed by the District and amended prior to the date hereof (the "Creation Consent Agreement"). Such agreement provides: (i) the District will not issue more than $90,000,000 principal amount of bonds without prior City consent, (ii) the District will not issue bonds after August 21, 2035, without prior City consent, (iii) the District will provide the City with agreed upon advance notice of the issuance of bonds, and (iv) to the maximum extent allowed by law, each year the District will levy a combined debt service and operation and maintenance tax rate of at least $1.00 per $100 valuation.

Development Agreement

Effective August 21, 2015, and subsequently amended, the then current owners of all the land in Morningstar entered into with the City a Development Agreement (the "Development Agreement"), which provides, among other things, the development standards for Morningstar. The Development Agreement specifies: (i) the development regulations for the project, (ii) minimum lot sizes, (iii) permitted uses for commercial property, (iv) parks and open space requirements, (v) landscaping requirements, (vi) impact fees, and (vii) requirements for school sites within the project.

In addition, the Development Agreement provides that the developers within Morningstar will not seek reimbursement of costs of more than $90,000,000 from the District and $30,000,000 from MUD 2. Further, the Development Agreement provides that developers will not seek reimbursement from the District or MUD 2 from bonds issued after August 21, 2035.

The Development Agreement provides the City will not annex any land within Morningstar for full purposes any earlier than August 21, 2035. Commercial property, however, is subject to limited purpose annexation at any time. The Development Agreement runs with the land and is binding upon all future developers.

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. None of the present members of the Board reside within the District, but all own real property located within the boundaries of the District. Directors are elected in even-numbered years for staggered, four-year terms. The present members and officers of the Board are listed below:

Name	Position	Term Expires May
Theron Bryant	President	2022
John Dowdall	Vice President	2022
Michael Franklin	Secretary	2020
Melissa Stripling	Assistant Secretary	2020
Casey Tounget	Assistant Secretary	2020

The District has contracted with following companies to manage various functions:

Tax Assessor/Collector: The District's Tax Assessor/Collector is the Parker County Appraisal District.

Bookkeeper: L&S District Services, LLC serves as bookkeeper to the District.

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. McCall Gibson Swedlund Barfoot PLLC performed the audit of the District's financial statements for the fiscal year ended March 31, 2018. See "APPENDIX A."

Engineer: The District has contracted with Manhard Consulting. (the "Engineer").

Bond Counsel: The District has engaged 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.

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

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.

DEVELOPMENT STATUS OF THE DISTRICT

The District encompasses approximately 552 total acres of land of which, to date, approximately 121 acres (475 lots) have been developed as the single-family residential subdivision of Morningstar, Sections 5-1, 5-2, 6-1, 6-2, 7-1, 8-1, and 10-2. As of July 26, 2018, such single-family residential development in the District included approximately 339 completed homes (approximately 327 of which being occupied, 6 unoccupied, and 6 model homes), approximately 48 homes under construction, and approximately 88 developed but vacant lots. Additionally, as of July 26, 2018, approximately 100 acres were under development for 435 single-family lots within the residential subdivision of Morningstar, Sections 5-3, 6-3, 6-4, 7-2, and 8-2. The remaining land in the District consists of approximately 7 acres under development for a recreation center, approximately 29 undeveloped acres dedicated to development of a school and commercial property, approximately 193 undeveloped but developable acres, and approximately 102 undevelopable acres.

The table below summarizes the development within the District as of July 26, 2018, by section.

Morningstar	Section Acreage	Section Total Lots	Homes Completed	Homes Construction	Developed Vacant Lots
Section 5, Phase 1	24.51	68	45	0	23
Section 5, Phase 2	11.64	41	29	12	0
Section 6, Phase 1	14.65	72	72	0	0
Section 6, Phase 2	18.29	79	69	8	2
Section 7, Phase 1	26.16	91	58	13	20
Section 8, Phase 1	19.06	99	63	15	21
Section 10, Phase 2	6.85	25	3	0	22
Total Developed Residential	121.16	475	339	48	88
Residential Under Construction	100.00				
Recreation Center	7.00				
School and Commercial	29.00				
Undeveloped but Developable	193.22				
Undevelopable	102.00				
District Total	552.38				

Homebuilders within the District

Homebuilders active in the District include DR Horton, Highland Homes, Impression Homes, and Rendition Homes. Homes range in price from $250,000–$450,000 and in size from 1,800–4,500 square feet. Homebuilding in the District began in October of 2016 and as of July 26, 2018, approximately 339 single-family homes have been completed and approximately 48 homes are under construction. During 2016, approximately 8 homes were sold within the District; during 2017, approximately 167 homes were sold within the District; and through six months of 2018, approximately 118 homes were sold within the District.

MORNINGSTAR

The District is part of the 737-acre, master-planned community known as "Morningstar." Located along Interstate 20, Morningstar offers its residents ease of access to places of work in Fort Worth, Texas, as well as a number of amenities including a clubhouse with resort-style pools, cabanas, play yards, and a lakeside amphitheater. Morningstar also offers its residents miles of hike and bike trails, open green spaces, and a community center.

All 737 acres of land that make up Morningstar are located within either the District or MUD 2. To date, all material development in Morningstar has occurred within the District.

At full development, it is anticipated that Morningstar will contain approximately 525 acres of residential development, approximately 35 acres of commercial development, and 106 acres of land for community and recreational uses. The District makes no representation as to the timing or likelihood of such development occurring.

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

THE DEVELOPERS/PRINCIPAL LANDOWNERS

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 Developers and Principal Landowners

The following entities are either developers of land within the District or principal owners of land in the District: (i) FG Aledo; (ii) FWFW; (iii) Wilbow; and (iv) D.R. Horton-Texas, Ltd., a Texas limited partnership. FG Aledo and Wilbow are referred to herein collectively as the "Developers."

FG Aledo and FWFW

FG Aledo Development, LLC, a Texas limited liability company ("FG Aledo"), is managed by KTFW Investments, Inc., a Texas corporation. FWFW Holdings, Inc., a Texas corporation ("FWFW"), is managed by Kim Gill and Timothy Fleet. In May 2014, FG Aledo purchased 138.278 acres within Morningstar and FWFW purchased the remaining 598.949 acres in Morningstar. FWFW was created for the purpose of owning, as an investment, land in Morningstar. FG Aledo exists for the purposes of purchasing and developing land in Morningstar.

Currently, FG Aledo owns approximately 138 acres in the District; approximately 165 vacant but developed lots in the District; approximately 86 lots under development in the District; and approximately 180 acres in the remainder of Morningstar (i.e., MUD 2). FWFW owns approximately 184 acres in the District and approximately 552 acres in the remainder of Morningstar.

Wilbow

Wilbow-Morningstar Development Corporation, a Texas corporation ("Wilbow"), is managed by Chas Fitzgerald, Director, William D. Bowness, Director and Natisha Rose Bowness, Director. In October 2015, Wilbow purchased from FWFW 128.899 acres of land to be developed as Morningstar, Sections 7 and 8, and, as part of such sale, FG Aledo assigned to Wilbow the Lot Purchase Contracts with Highland Homes, Impression Homes, and Rendition Homes. As part of the consideration for the purchase, Wilbow assigned to FG Aledo all of its rights to be reimbursed for all of the water, sewer, drainage and road facilities to be constructed to serve this property.

Currently, Wilbow owns approximately 127 acres in the District; approximately 23 vacant but developed lots in the District; approximately 203 lots under development in the District; and approximately 91 acres in the remainder of Morningstar.

D.R. Horton

D.R. Horton-Texas, Ltd., a Texas limited partnership, which is a subsidiary of and controlled by D.R. Horton, Inc. ("DR Horton"), homebuilder in the District and the District's top taxpayer, comprises of approximately 8.23% of the District's total certified assessed valuation. See "TAX DATA – Principal Taxpayers" for a discussion of DR Horton's ownership of property in the District. DR Horton is a publicly traded corporation whose stock is listed on the New York Stock Exchange under the ticker symbol "DHI." Audited financial statements for D.R. Horton, Inc. can be found online at https://investor.drhorton.com. DR Horton is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the United States Securities and Exchange Commission

("SEC"). Reports, proxy statements, and other information filed by DR Horton can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a website at http://www.sec.gov that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

Development Financing

FG Aledo has entered into a development loan with Simmons Bank, an Arkansas state bank, as successor-in-interest by merger to Southwest Bank, in the principal amount of $3,928,444. Such loan matures on February 23, 2021, and interest accrues at the rate of the greater of 4.75% or prime plus 0.50%. According to FG Aledo, $3,025,000 remains outstanding on such loan and it is in compliance with all material provisions of the loan. FG Aledo's development loan is secured by a lien on its existing lots in the District and approximately 93 undeveloped acres in the District.

FG Aledo has also entered into a land loan with Simmons Bank, an Arkansas state bank, as successor-in-interest by merger to Southwest Bank, in the principal amount of $2,000,000. Such loan matures on May 28, 2020, and interest accrues at the rate of 4.75%. According to FG Aledo, $574,379 remains outstanding on such loan and it is in compliance with all material provisions of the loan. Such loan is secured by a lien on approximately 98.174 acres in the District and MUD 2.

FWFW has entered into a loan with BancorpSouth Bank in the principal amount of $6,000,000. The loan matures January 13, 2024, accrues interest at the rate of the greater of 4.75% or prime plus 1.50%, and is secured by a lien on approximately 443.903 acres owned by FWFW in the District and MUD 2. According to FWFW, $5,500,000 principal remains outstanding on the loan and it is in compliance with all materials provision of the loan.

FG Aledo has entered into a development loan with Simmons Bank, an Arkansas state bank, in the principal amount of $3,000,000. Such loan matures on February 23, 2021, and interest accrues at the rate of the greater of 4.75% or prime plus 0.50%. According to FG Aledo, no funds have been drawn on the loan as of July 26, 2018, and FG Aledo is in compliance with all material provisions of the loan. FG Aledo's development loan is secured by a lien on its existing lots in the District and approximately 93 undeveloped acres in the District.

Lot-Sales Contracts

FG Aledo has entered into a lot sales contract with DR Horton for the sale of lots in Morningstar, Sections 5 and 6. Wilbow is a party to lot sales contracts with Highland Homes, Impression Homes, and Rendition Homes for the sale of lots in Morningstar, Sections 7 and 8. The contracts for the sale of lots between the Developers and the builders require that earnest money be deposited with a title company, typically 10% of the total price of the completed lots. The sales contracts establish certain required lot purchases quarterly, with the earnest money deposit being returned to the builders upon purchase of the last lots under each contract. The Developers' sole remedy for builders not purchasing lots in accordance with the contracts is cancellation of the contract and retention of the remaining earnest money on deposit.

According to the Developers, each of the builders is in compliance with its respective lot-sales contract. As of July 1, 2018, the approximate total number of lots contracted and purchased by each builder is listed below:

Builder	Total Lots Contracted	Total Lots Purchased
DR Horton	400	229
Highland Homes	56	51
Impression Homes	47	40
Rendition Homes	89	77
Totals	592	397

THE SYSTEM

Regulation

According to the Engineer, the water distribution, wastewater collection and storm water drainage facilities and roads constructed by the District 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 Parker County, Texas. 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 appropriate jurisdictional entities.

Operation of the District's waterworks and sewer 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 -

Property within the District is accessible through a network of roadways, including two feeder roads (Indigo Sky Drive and Morning Mist Trail). Construction of these roadways has been financed with funds advanced by the FG Aledo. A portion of the proceeds from the sale of the Road Bonds will be used to reimburse FG Aledo for the paving construction of Indigo Sky Drive and Morning Mist Trail. Old Weatherford Road and FM 3325 are major thoroughfares that lie outside the District's boundary but provide access to the development. As part of the Development Agreement, the Developers must provide certain improvements to these roads. Construction of roadway facilities is subject to the regulatory authority of the City. Upon completion of the required inspection and acceptance processes, Parker County will accept ownership and maintenance responsibility for the roadways. Indigo Sky Drive and Morning Mist Trail have been accepted by Parker County.

- Utility Agreement -

The City, the District and MUD 2 are parties to an Amended and Restated Utility Agreement as amended from time to time through the date hereof (the "Utility Agreement"). The Utility Agreement provides that the District and MUD 2 shall construct water and wastewater trunklines to connect to the City's existing water and wastewater trunklines and the City shall (i) provide wastewater treatment capacity to serve all of Morningstar, (ii) provide water supply to serve all of Morningstar, and (iii) the City shall be the retail provider of water and sewer service to all customers located in Morningstar. As the districts construct the water and wastewater facilities, they shall convey them to the City. Thereafter, the City shall operate and maintain such facilities and receive all water and wastewater revenues from such system.

Pursuant to the Utility Agreement, the districts may be required to contribute monies to water and wastewater facilities to serve Morningstar and pay applicable water and wastewater impact fees.

- Wastewater Treatment and Conveyance System -

The District is located wholly within the extraterritorial jurisdiction of the City and obtains sanitary sewer service from the City. Customers of the District receive sanitary sewer service from the City pursuant to the Utility Agreement. As a condition of such service, the Utility Agreement obligates the District to acquire, construct, and extend wastewater facilities (the "Wastewater System") to serve land in the District and, when completed in accordance with approved plans and specifications, to convey title to the Wastewater System to the City. The Wastewater System includes a 2.64 mile offsite sanitary sewer line (74% pro-rata share for the District and 26% pro-rata share for MUD 2) which is oversized to serve out of District areas. Pursuant to the Utility Agreement, the City will reimburse FG Aledo for the cost associated with oversizing. The City operates and maintains the Wastewater System and is responsible for establishing wastewater rates and billing and collecting for such services.

- Water Supply and Distribution -

Customers of the District receive water service from the City pursuant to the terms and provisions of the Utility Agreement. As a condition of such service, the Utility Agreement obligates the District to acquire, construct, and extend water facilities to serve land in the District (the "Water System"), and when completed in accordance with approved plans and specifications, to convey title to the Water System to the City. The Water System includes a 2.17 mile offsite water line (100% share for the District) and a 2.55 mile offsite water line (63% pro-rata share for the District and 37% pro-rata share for MUD 2) which are oversized to serve out of District areas. Pursuant to the Utility Agreement, the City will reimburse the FG Aledo for the cost associated with oversizing. The City operates and maintains the Water System, and is responsible for establishing water rates and billing and collecting for such services.

- Drainage -

Stormwater runoff within the District drains through a storm sewer system consisting of inlets and storm sewer piping which eventually discharges into Mary's Creek. There are a total of 73 acres within drainage reserves/floodplain. None of this acreage is planned for development. It is currently anticipated that the District will issue Bonds in the future to reimburse the Developers for the drainage/detention facilities that serve the District. The District will be responsible for future maintenance of such detention facilities.

- Impact Fees -

The City currently charges $1,365 for water and $810 for wastewater impact fees for residential connections. These will increase to $1,758 and $1,044 after April 1, 2019. The developer is responsible for paying them as building permits are issued. They are reimbursable with Utility System bonds.

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 the proceeds of annual ad valorem taxes 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 MATTERS." 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 District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure 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 Initial Purchaser 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 Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the 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"), interest on the Bonds (1) will be excludable from the "gross income" of the holders thereof for federal income tax purposes and (2) is not subject to the alternative minimum tax on individuals. 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 Internal Revenue Code of 1986 (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.

Tax Accounting of Original Issue Discount Bonds

The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds is not equal to the accrual period or is 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.

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 certified 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.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission ("SEC") regarding the District's continuing disclosure obligations because the District has not issued more than $10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the Bond Order, the District has made the following agreement for the benefit of the Bondholders. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

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

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

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

Material Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non- payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-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 CFR § 240.15c2-12 (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 to a decision to purchase or sell Bonds. 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.

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 Developers, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding

Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the United States Securities and Exchange Commission amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The District is in compliance in all material respects with its previous undertakings pursuant to SEC Rule 15c2-12.

SOURCES OF INFORMATION

General

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Developers, the Tax Assessor/Collector, the Parker 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, orders 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.

Experts

Bond Counsel has reviewed the information appearing in this Official Statement under the captions "SALE AND DISTRIBUTION OF THE BONDS," "THE BONDS," "TAXING PROCEDURES," "THE DISTRICT – General," "LEGAL MATTERS," "TAX MATTERS," "QUALIFIED TAX-EXEMPT OBLIGATIONS," and "CONTINUING DISCLOSURE OF INFORMATION." Bond Counsel has reviewed the information under the aforementioned sections solely to determine whether such information fairly summarizes the law or documents referred to in such sections. Bond Counsel has not independently verified other factual information contained in this Official Statement nor conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon the limited participation of such firm as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

The information contained in this Official Statement relating to engineering and to the description of the Road System and Utility System generally and, in particular, the engineering information included in the sections captioned "DEVELOPMENT STATUS OF 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 development and the status of development within the District generally and, in particular, the information in the section captioned "THE DEVELOPERS/PRINCIPAL LANDOWNERS," "DEVELOPMENT STATUS OF THE DISTRICT" and "MORNINGSTAR" has been provided by the Developers 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 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 Appraisal District and the District's Tax Assessor/Collector, 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

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

Updating the Official Statement

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

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 Morningstar Ranch Municipal Utility District No. 1 of Parker County as of the date shown on the cover page hereof.

/s/ Theron Bryant
President, Board of Directors
Morningstar Ranch Municipal Utility District No. 1
of Parker County

ATTEST:

/s/ Michael Franklin
Secretary, Board of Directors
Morningstar Ranch Municipal Utility District No. 1
of Parker County

APPENDIX A

Financial Statements of the District

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY

PARKER COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2018

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morningstar Ranch Municipal Utility
District No. 1 of Parker County
Parker County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District"), as of and for the year ended March 31, 2018, 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.

Board of Directors
Morningstar Ranch Municipal Utility
District No. 1 of Parker County

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 March 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

July 11, 2018

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018

Management's discussion and analysis of Morningstar Ranch Municipal Utility District No. 1 of Parker County's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 2018. 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 financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

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

The Statement of Activities reports how the District's net position changed during the current 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, maintenance tax revenues, developer advances and general and administrative expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the costs of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by $4,342,107 as of March 31, 2018. The following is a comparative analysis of government-wide changes in net position:

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	$ 539,010	$ 6,820	$ 532,190
Intangible Assets (Net of Accumulated Amortization)	4,584,339		4,584,339
Total Assets	$ 5,123,349	$ 6,820	$ 5,116,529
Due to Developer	$ 3,413,120	$ 59,395	$ (3,353,725)
Bonds/Bond Anticipation Note Payable	6,010,865		(6,010,865)
Other Liabilities	41,471	10,691	(30,780)
Total Liabilities	$ 9,465,456	$ 70,086	$ (9,395,370)
Net Position:			
Net Investment in Capital Assets	$ (4,436,117)		$ (4,436,117)
Restricted	107,598		107,598
Unrestricted	(13,588)	(63,266)	49,678
Total Net Position	$ (4,342,107)	$ (63,266)	$ (4,278,841)

The following table provides a summary of the District's operations for the years ending March 31, 2018 and March 31, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	$ 118,090	$ 19,441	$ 98,649
Other Revenues	744		744
Total Revenues	$ 118,834	$ 19,441	$ 99,393
Total Expenses	4,397,675	32,537	(4,365,138)
Change in Net Position	$ (4,278,841)	$ (13,096)	$ (4,265,745)
Net Position, Beginning of Year	(63,266)	(50,170)	(13,096)
Net Position, End of Year	$ (4,342,107)	$ (63,266)	$ (4,278,841)

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2018, were a deficit of $2,650,717, a decrease of $2,646,846 from the prior year.

The District's General Fund fund balance increased by $79,154, primarily due to property tax revenues and developer advances exceeding operating costs.

The District's Debt Service Fund was created during the current fiscal year with the issuance of the Series 2017 bonds and had a fund balance of $115,866 at year-end.

The District's Capital Projects Fund was created during the current fiscal year with the issuance of the Series 2017 Bonds and sale of the Series 2018 Bond Anticipation Note and had a deficit fund balance of $2,841,866 at year-end.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopts a budget for each fiscal year. Actual revenues were $16,606 more than budgeted primarily due to higher than anticipated maintenance tax revenues. Actual expenditures were $22,707 more than budgeted expenditures primarily due to higher than anticipated professional fees. Unbudgeted developer advances totaled $31,000.

CAPITAL AND INTANGIBLE ASSETS

The District is located within the extraterritorial jurisdiction of the City of Fort Worth, Texas (the "City"). In accordance with a Utility Agreement with the City, all water and wastewater facilities are conveyed to the City once constructed and placed in service. The City operates the facilities and is responsible for the maintenance. The District's intangible assets included water and sewer infrastructure as well as impact fees with a March 31, 2018 balance, net of accumulated amortization, of $4,584,339.

Parker County accepts ownership and maintenance responsibility for roadways within the District. The District will be responsible for the future maintenance of certain detention facilities.

LONG-TERM DEBT ACTIVITY

The Series 2017 Bonds are not rated as of year-end. As of March 31, 2018, the District had total bond debt payable of $2,850,000. The changes in the debt position of the District during the year ended March 31, 2018, are summarized as follows:

Bond Debt Payable, April 1, 2017	$ -0-
Add: Bond Sale - Series 2017	2,850,000
Bond Debt Payable, March 31, 2018	$ 2,850,000

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 Morningstar Ranch Municipal Utility District No. 1 of Parker County, c/o Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, TX 75254.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	$ 92,927	$ 1,718
Investments		114,000
Property Taxes Receivable	1,524	
Accrued Interest		148
Intangible Assets - Right to Receive Service (Net of Accumulated Amortization)		
TOTAL ASSETS	$ 94,451	$ 115,866
LIABILITIES		
Accounts Payable	$ 17,644	$
Accrued Interest Payable		
Due to Developer		
Bond Anticipation Note Payable		
Long-Term Liabilities:		
Bonds Payable Due After One Year		
TOTAL LIABILITIES	$ 17,644	$ -0-
DEFERRED INFLOWS OF RESOURCES		
Property Tax Revenues	$ 1,524	$ -0-
FUND BALANCES (DEFICIT)		
Restricted for Authorized Construction	$	$
Restricted for Debt Service		115,866
Unassigned	75,283	
TOTAL FUND BALANCES (DEFICIT)	$ 75,283	$ 115,866
TOTAL LIABILITIES AND FUND BALANCES	$ 94,451	$ 115,866
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
$ 328,693	$ 423,338	$	$ 423,338
	114,000		114,000
	1,524		1,524
	148		148
		4,584,339	4,584,339
$ 328,693	$ 539,010	$ 4,584,339	$ 5,123,349
$	$ 17,644	$	$ 17,644
15,559	15,559	8,268	23,827
		3,413,120	3,413,120
3,155,000	3,155,000		3,155,000
		2,855,865	2,855,865
$ 3,170,559	$ 3,188,203	$ 6,277,253	$ 9,465,456
$ -0-	$ 1,524	$ (1,524)	$ -0-
$ (2,841,866)	$ (2,841,866)	$ 2,841,866	$
	115,866	(115,866)	
	75,283	(75,283)	
$ (2,841,866)	$ (2,650,717)	$ 2,650,717	$ -0-
$ 328,693	$ 539,010		
		$ (4,436,117)	$ (4,436,117)
		107,598	107,598
		(13,588)	(13,588)
		$ (4,342,107)	$ (4,342,107)

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

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
MARCH 31, 2018

Total Fund Balances - Governmental Funds		$	(2,650,717)
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.			4,584,339
Deferred inflows of resources related to property tax revenues for the 2017 tax levy became part of recognized revenue in the governmental activities of the District.			1,524
Cetain liabilities are not due and payable in the current period and, therefore, are not reported as liabilites in the governmental funds. These liabilities at year-end consist of:			
Due to Developer	$ (3,413,120)		
Accrued Interest Payable	(8,268)		
Bonds Payable	(2,855,865)		(6,277,253)
Total Net Position - Governmental Activities		$	(4,342,107)

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

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MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED MARCH 31, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	$ 116,566	$
Penalty and Interest	40	
Miscellaneous Revenues		444
TOTAL REVENUES	$ 116,606	$ 444
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	$ 56,249	$
Contracted Services	5,843	
Amortization		
Other	6,360	50
Capital Outlay		
Conveyance of Assets		
Debt Service:		
Issuance Costs		
Bond and Bond Anticipation Note Interest		33,071
TOTAL EXPENDITURES/EXPENSES	$ 68,452	$ 33,121
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	$ 48,154	$ (32,677)
OTHER FINANCING SOURCES (USES)		
Developer Advances	$ 31,000	$
Bond Premium		
Proceeds from Issuance of Long-Term Debt		148,543
TOTAL OTHER FINANCING SOURCES (USES)	$ 31,000	$ 148,543
NET CHANGE IN FUND BALANCES	$ 79,154	$ 115,866
CHANGE IN NET POSITION		
FUND BALANCES (DEFICIT)/NET POSITION - APRIL 1, 2017	(3,871)	
FUND BALANCES (DEFICIT)/NET POSITION - MARCH 31, 2018	$ 75,283	$ 115,866

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
$	$ 116,566	$ 1,524	$ 118,090
	40		40
260	704		704
$ 260	$ 117,310	$ 1,524	$ 118,834
$	$ 56,249	$	$ 56,249
	5,843	6,750	12,593
		157,224	157,224
61	6,471		6,471
5,226,141	5,226,141	(5,226,141)	
		3,800,555	3,800,555
307,786	307,786		307,786
15,559	48,630	8,167	56,797
$ 5,549,547	$ 5,651,120	$ (1,253,445)	$ 4,397,675
$ (5,549,287)	$ (5,533,810)	$ 1,254,969	$ (4,278,841)
$	$ 31,000	$ (31,000)	$
5,964	5,964	(5,964)	
2,701,457	2,850,000	(2,850,000)	
$ 2,707,421	$ 2,886,964	$ (2,886,964)	$ -0-
$ (2,841,866)	$ (2,646,846)	$ 2,646,846	$
		(4,278,841)	(4,278,841)
	(3,871)	(59,395)	(63,266)
$ (2,841,866)	$ (2,650,717)	$ (1,691,390)	$ (4,342,107)

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

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2018

Net Change in Fund Balances - Governmental Funds	$ (2,646,846)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	1,524
Governmental funds do not account for amortization. However, in the Statement of Net Position, intangible assets are amortized over the applicable period.	(157,224)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	1,418,836
Governmental funds report bond premiums as other financing sources in the year received. However, in the Statement of Net Position, the bond premiums are amortized over the term of the bonds and the current year amortized portion is recorded in the Statement of Activities.	(5,964)
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.	(8,167)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	(2,850,000)
Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability.	(31,000)
Change in Net Position - Governmental Activities	$ (4,278,841)

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

NOTE 1. CREATION OF DISTRICT

Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District") was created effective August 3, 2009, by an Order of the Texas Commission on Environmental Quality (the "Commission") pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. The District was created for the purposes of providing water, sanitary sewer and drainage facilities and thoroughfare, arterial, and collector roads to serve the land within its boundaries. The Board of Directors held its organizational meeting on August 11, 2009, and the first bonds were sold on October 31, 2017.

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.

Financial Statement Presentation

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Governmental Funds

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

General Fund - To account for resources not required to be accounted for in another fund, maintenance tax revenues and developer advances as well as general and administrative costs.

Debt Service Fund - To account for ad valorem taxes and financial resources 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.

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 and Intangible Assets

The District conveys its water and wastewater infrastructure to the City of Fort Worth for ownership and maintenance. Capital assets retained by the District for ownership and maintenance 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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital and Intangible Assets (Continued)

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. Certain assets are capitalized if they have an original cost greater than $10,000 and a useful life over 2 years. Future construction of detention facilities will be owned and maintained by the District and depreciated over 45 years.

The District is located within the extraterritorial jurisdiction of the City of Fort Worth, Texas. In accordance with a Utility Agreement with the City, all water and wastewater facilities are conveyed to the City once constructed and placed in service. The City operates and maintains the facilities. These assets are recorded as intangible assets and amortized over 45 years. Parker County accepts ownership and maintenance responsibility for roadways within the District.

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 fees of office paid to directors are wages for federal payroll tax purposes only.

Measurement Focus

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2018:

	April 1, 2017	Additions	Retirements	March 31, 2018
Bonds Payable	$	$ 2,850,000	$	$ 2,850,000
Unamortized Premiums		5,964	99	5,865
Bonds Payable, Net	$ -0-	$ 2,855,964	$ 99	$ 2,855,865

Amount Due Within One Year	$ -0-
Amount Due After One Year	2,855,865
Bonds Payable, Net	$ 2,855,865

The District's bonds payable at March 31, 2018, consist of the following:

	Series 2017 Road
Amounts Outstanding – March 31, 2018	$ 2,850,000
Interest Rates	2.00%-4.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2020/2042
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2025*

* Or any date thereafter at a price of par plus unpaid accrued interest to the date fixed for redemption. The Series 2017 bonds maturing on September 1, 2032, 2035, 2038 and 2042, are term bonds and are subject to mandatory redemption beginning September 1, 2029, 2033, 2036 and 2039, respectively.

As of March 31, 2018, the debt service requirements on the outstanding bonds were as follows:

Fiscal Year	Principal	Interest	Total
2019	$	$ 99,213	$ 99,213
2020		99,212	99,212
2021	80,000	98,413	178,413
2022	80,000	96,772	176,772
2023	85,000	94,998	179,998
2024-2028	480,000	439,625	919,625
2029-2033	575,000	351,718	926,718
2034-2038	700,000	230,446	930,446
2039-2043	850,000	84,759	934,759
	$ 2,850,000	$ 1,595,156	$ 4,445,156

NOTE 3. LONG-TERM DEBT (Continued)

The District has the following authorized but unissued bonds: $73,000,000 for water, wastewater and drainage facilities; $25,530,000 for roads; $109,500,000 for refunding water, wastewater and drainage facilities bonds; and $42,300,000 for refunding road bonds. The bonds of the District are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

The District did not levy an ad valorem debt service tax during the current year since the District's first bond sale occurred after the 2017 tax was levied. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy. The District's tax calendar is as follows:

Levy Date	-	October 1, 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 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.

The bond order states 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.

In the current fiscal year, $148,543 was deposited into the Debt Service Fund and restricted for the payment of bond interest. The District made interest payments of $33,071 during the current fiscal year leaving a restricted balance of $115,472.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was $537,338 and the bank balance was $537,328. 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 March 31, 2018, as listed below:

	Cash	Certificate of Deposit	Total
GENERAL FUND	$ 92,927	$	$ 92,927
DEBT SERVICE FUND	1,718	114,000	115,718
CAPITAL PROJECTS FUND	328,693		328,693
TOTAL DEPOSITS	$ 423,338	$ 114,000	$ 537,338

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.

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. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in certificates of deposit and records those investments at amortized cost. As of March 31, 2018, the District had the following investments and maturities.

Fund and Investment Type	Fair Value	Maturities Of Less Than 1 Year
DEBT SERVICE FUND		
Certificate of Deposit	114,000	114,000

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 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 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.

NOTE 6. CAPITAL AND INTANGIBLE ASSETS

The District is located within the extraterritorial jurisdiction of the City of Fort Worth, Texas. In accordance with a Utility Agreement with the City, all water and wastewater facilities are conveyed to the City once constructed and placed in service. The City operates and maintains the facilities. These assets, along with impact fees paid to the City, are recorded as intangible assets and amortized over 45 years. Intangible assets, net of accumulated amortization, totaled $4,584,339 as of March 31, 2018. Current year amortization expense was recorded in the amount of $157,224.

Parker County accepts ownership and maintenance responsibility for roadways within the District. Future construction of detention facilities will be owned and maintained by the District.

NOTE 7. MAINTENANCE TAX

On November 3, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed $1.00 per $100 of assessed valuation of taxable property within the District. During the year ended March 31, 2018, the District levied an ad valorem maintenance tax rate of $1.00 per $100 of assessed valuation, which resulted in a tax levy of $117,141 on the adjusted taxable valuation of $11,714,101 for the 2017 tax year.

NOTE 8. UNREIMBURSED COSTS

The District executed a financing agreement with the Developer which calls for the Developer to fund costs associated with the construction of public infrastructure located within the District. In addition, the Developer has advanced funds to the District in order for the District to meet its ongoing financial obligations. Reimbursement for infrastructure costs and operating advances will come from proceeds of bond sales to the extent approved by the Commission.

NOTE 9. RISK MANAGEMENT

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

NOTE 10. AGREEMENTS WITH THE CITY OF FORT WORTH

The District executed a Development Agreement with the City of Fort Worth (the "City"). The agreement, as amended, provides the developers will not seek reimbursement of costs of more than $90,000,000 from the District and $30,000,000 from Morningstar Ranch MUD 2. Further, the agreement provides the developers will not seek reimbursement from the District or MUD 2 from bonds issued after August 21, 2035. The agreement provides the City will not annex any land within Morningstar Ranch for full purposes any earlier than August 21, 2035.

The City, the District and MUD 2 are parties to an Amended and Restated Utility Agreement as amended from time to time (the "Utility Agreement"). The Utility Agreement provides that the District and MUD 2 shall construct water and wastewater trunklines to connect to the City's existing water and wastewater trunklines and the City shall (i) provide wastewater treatment capacity to serve all of Morningstar Ranch, (ii) provide water supply to serve all of Morningstar Ranch, and (iii) the City shall be the retail provider of water and sewer service to all customers located in Morningstar Ranch. As the districts construct the water and wastewater facilities, they shall convey them to the City. Thereafter, the City shall operate and maintain such facilities and receive all water and wastewater revenues from such system. Pursuant to the Utility Agreement, the districts may be required to contribute monies to water and wastewater facilities to serve Morningstar Ranch and pay applicable water and wastewater impact fees. The City will bill and collect for water and wastewater services in accordance with the agreement.

NOTE 11. BOND SALE

On October 31, 2017, the District issued its $2,850,000 Unlimited Tax Road Bonds, Series 2017. Proceeds from the bond sale were used to reimburse the developer for Indigo Sky Drive and Morning Mist Trail paving and street light improvements and FM 3325 improvements. Additional proceeds were used to provide for capitalized interest and to pay for issuance costs of the bonds.

NOTE 12. BOND ANTICIPATION NOTE SALE AND DEFICIT FUND BALANCE

On January 30, 2018, the District sold its Series 2018 Bond Anticipation Note (the "BAN") in the principal amount of $3,155,000 at 3.00%. Proceeds from the BAN were used to reimburse the developer for construction and engineering costs for offsite sanitary sewer; offsite water line for Westside, Section Nos. 4 and 5; offsite easement acquisition; water and wastewater impact fees; and issuance costs associated with the BAN. Due to the recording of the BAN as a current payable of the Capital Projects Fund, the Capital Projects Fund has incurred a deficit fund balance at March 31, 2018, in the amount of $2,841,866. This deficit will be alleviated upon the future sale of bonds. See also Note 13.

NOTE 13. SUBSEQUENT EVENT – BOND APPLICATION APPROVAL

The Commission has approved the District's application to issue $5,960,000 of Unlimited Tax Bonds, Series 2018. Delivery of the bonds is expected on or about September 6, 2018.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2018

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	$ 100,000	$ 116,566	$ 16,566
Penalty and Interest		40	40
TOTAL REVENUES	$ 100,000	$ 116,606	$ 16,606
EXPENDITURES			
Services Operations:			
Professional Fees	$ 28,500	$ 56,249	$ (27,749)
Contracted Services	4,200	5,843	(1,643)
Other	13,045	6,360	6,685
TOTAL EXPENDITURES	$ 45,745	$ 68,452	$ (22,707)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 54,255	$ 48,154	$ (6,101)
OTHER FINANCING SOURCES(USES)			
Developer Advances	$ -0-	$ 31,000	$ 31,000
NET CHANGE IN FUND BALANCE	$ 54,255	$ 79,154	$ 24,899
FUND BALANCE - APRIL 1, 2017	(3,871)	(3,871)	
FUND BALANCE - MARCH 31, 2018	$ 50,384	$ 75,283	$ 24,899

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MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MARCH 31, 2018

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2018

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

______	Retail Water	______	Wholesale Water	X	Drainage
______	Retail Wastewater	______	Wholesale Wastewater	______	Irrigation
______	Parks/Recreation	______	Fire Protection	______	Security
______	Solid Waste/Garbage	______	Flood Control	______	Roads

______ Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)

______ Other:

The City of Fort Worth is the water and sewer service provider for residents of the District.

2. RETAIL SERVICE PROVIDERS: NOT APPLICABLE

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: NOT APPLICABLE

4. STANDBY FEES: NOT APPLICABLE

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No ______

County in which District is located:

Parker County, Texas

Is the District located within a city?

Entirely ______ Partly ______ Not at all X

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

Entirely X Partly ______ Not at all ______

ETJ in which District is located:

City of Fort Worth, Texas

Are Board Members appointed by an office outside the District?

Yes ______ No X

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2018

PROFESSIONAL FEES:		
Auditing	$	5,500
Engineering		6,594
Legal		44,155
TOTAL PROFESSIONAL FEES	$	56,249
CONTRACTED SERVICES:		
Appraisal District	$	2,276
Bookkeeping		3,567
TOTAL CONTRACTED SERVICES	$	5,843
ADMINISTRATIVE EXPENDITURES:		
Director Fees	$	2,550
Insurance		2,992
Payroll Taxes		195
Other		623
TOTAL ADMINISTRATIVE EXPENDITURES	$	6,360
TOTAL EXPENDITURES	$	68,452

See accompanying independent auditor's report.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
INVESTMENTS
MARCH 31, 2018

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
DEBT SERVICE FUND					
Certificate of Deposit	XXXX0671	1.25%	08/20/18	$ 114,000	$ 148

See accompanying independent auditor's report.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2018

	Maintenance Taxes	
TAXES RECEIVABLE - APRIL 1, 2017	$ -0-	
Adjustments to Beginning Balance	949	$ 949
Original 2017 Tax Levy	$ 118,090	
Adjustment to 2017 Tax Levy	(949)	117,141
TOTAL TO BE ACCOUNTED FOR		$ 118,090
TAX COLLECTIONS		
Prior Years	$ 949	
Current Year	115,617	116,566
TAXES RECEIVABLE - MARCH 31, 2018		$ 1,524
TAXES RECEIVABLE BY YEAR:		
2017		$ 1,524

See accompanying independent auditor's report.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2018

	2017	2016	2015
TOTAL PROPERTY VALUATIONS	$ 11,714,101	$ 1,944,060	$ 827,942
TAX RATES PER $100 VALUATION:			
Debt Service	$ 0.00	$ 0.00	$ 0.00
Maintenance	1.00	1.00	1.00
TOTAL TAX RATES PER $100 VALUATION	$ 1.00	$ 1.00	$ 1.00
ADJUSTED TAX LEVY*	$ 117,141	$ 19,441	$ 8,280
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	98.70 %	100.00 %	100.00 %

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

Maintenance Tax – Maximum tax rate of $1.00 per $100 of assessed valuation was approved by voters on November 3, 2009.

See accompanying independent auditor's report.

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MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2018

	S E R I E S - 2 0 1 7 R O A D		
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	$	$ 99,213	$ 99,213
2020		99,212	99,212
2021	80,000	98,413	178,413
2022	80,000	96,772	176,772
2023	85,000	94,998	179,998
2024	90,000	92,982	182,982
2025	90,000	90,733	180,733
2026	95,000	88,232	183,232
2027	100,000	85,403	185,403
2028	105,000	82,275	187,275
2029	105,000	78,968	183,968
2030	110,000	75,087	185,087
2031	115,000	70,788	185,788
2032	120,000	65,887	185,887
2033	125,000	60,988	185,988
2034	130,000	56,131	186,131
2035	135,000	51,328	186,328
2036	140,000	46,344	186,344
2037	145,000	41,087	186,087
2038	150,000	35,556	185,556
2039	155,000	29,838	184,838
2040	165,000	23,734	188,734
2041	170,000	17,244	187,244
2042	175,000	10,359	185,359
2043	185,000	3,584	188,584
	$ 2,850,000	$ 1,595,156	$ 4,445,156

See accompanying independent auditor’s report.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2018

Description	Original Bonds Issued	Bonds Outstanding April 1, 2017
Morningstar Ranch Municipal Utility District No. 1 of Parker County Unlimited Tax Road Bonds - Series 2017	$ 2,850,000	$ -0-

Bond Authority:	Utility Bonds	Road Bonds
Amount Authorized by Voters	$ 73,000,000	$ 28,200,000
Amount Issued		2,850,000
Remaining to be Issued	$ 73,000,000	$ 25,350,000

Debt Service Fund cash and investment balances as of March 31, 2018:	$ 115,718
Average annual debt service payment (principal and interest) for remaining term of all debt:	$ 177,806

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

See accompanying independent auditor's report.

Current Year Transactions				
	Retirements		Bonds Outstanding	
Bonds Sold	Principal	Interest	March 31, 2018	Paying Agent
$ 2,850,000	$ -0-	$ 33,071	$ 2,850,000	Amegy Bank Plano, TX

Utility Refunding Bonds	Road Refunding Bonds
$ 109,500,000	$ 42,300,000
$ 109,500,000	$ 42,300,000

See accompanying independent auditor's report.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND – THREE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	$ 116,566	$ 19,441	$ 8,280
Penalty and Interest	40		
TOTAL REVENUES	$ 116,606	$ 19,441	$ 8,280
EXPENDITURES			
Service Operations:			
Professional Fees	$ 56,249	$ 27,097	$ 13,929
Contracted Services	5,843	2,909	2,278
Other	6,360	2,531	3,363
TOTAL EXPENDITURES	$ 68,452	$ 32,537	$ 19,570
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 48,154	$ (13,096)	$ (11,290)
OTHER FINANCING SOURCES (USES)			
Developer Advances	$ 31,000	$ 7,500	$ 16,500
NET CHANGE IN FUND BALANCE	$ 79,154	$ (5,596)	$ 5,210
BEGINNING FUND BALANCE	(3,871)	1,725	(3,485)
ENDING FUND BALANCE	$ 75,283	$ (3,871)	$ 1,725

See accompanying independent auditor's report.

Percentage of Total Revenues					
2018		2017		2016	
100.0	%	100.0	%	100.0	%
100.0	%	100.0	%	100.0	%
48.2	%	139.4	%	168.2	%
5.0		15.0		27.5	
5.5		13.0		40.6	
58.7	%	167.4	%	236.3	%
41.3	%	(67.4)		(136.3)	

See accompanying independent auditor's report.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND – THREE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Miscellaneous Revenues	$ 444	$	$
EXPENDITURES			
Tax Collection Expenditures	$ 50	$	$
Debt Service Interest and Fees	33,071		
TOTAL EXPENDITURES	$ 33,121	$	$
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (32,677)	$	$
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	$ 148,543	$	$
NET CHANGE IN FUND BALANCE	$ 115,866	$	$
BEGINNING FUND BALANCE			
ENDING FUND BALANCE	$ 115,866	$ N/A	$ N/A
TOTAL ACTIVE RETAIL WATER CONNECTIONS	N/A	N/A	N/A
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	N/A	N/A	N/A

See accompanying independent auditor's report.

Percentage of Total Revenues					
2018		2017		2016	
100.0	%		%		%
11.3	%		%		%
7,448.4					
7,459.7	%		%		%
(7,359.7)	%	N/A	%	N/A	%

See accompanying independent auditor's report.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2018

District Mailing Address - Morningstar Ranch Municipal Utility
District No. 1 of Parker County
c/o Coats Rose, P.C.
14755 Preston Road, Suite 600
Dallas, TX 75254

District Telephone Number - (972) 982-8450

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended March 31, 2018	Expense Reimbursements for the year ended March 31, 2018	Title
Theron Bryant	05/14 05/18 (Elected)	$ 450	$ -0-	President
John Dowdall	05/14 05/18 (Elected)	$ -0-	$ -0-	Vice President
Michael Franklin	05/16 05/20 (Elected)	$ 600	$ -0-	Secretary
Casey Tounget	05/16 05/20 (Elected)	$ 750	$ -0-	Assistant Secretary
Melissa Stripling	05/16 05/20 (Elected)	$ 750	$ -0-	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): April 19, 2018

The limit on Fees of Office that a Director may receive during a fiscal year is $7,200 as set by board resolution on August 11, 2009. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2018

Consultants:	Date Hired	Fees for the year ended March 31, 2018	Title
Coats Rose, P. C.	08/11/09	$ 44,576	General Counsel
		$ 112,705	Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	08/30/16	$ 5,500	Auditor
		$ 13,400	Bond Related
L&S District Services, LLC	08/11/09	$ 4,467	Bookkeeper
Robert W. Baird & Co.	08/24/15	$ 92,889	Financial Advisor
Manhard Consulting	10/30/17	$ 16,352	Engineer

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

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
200 Liberty Street, 27th floor
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)