

## OFFICIAL STATEMENT

Dated October 18, 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 interest on the Bonds is not subject to the alternative minimum tax on individuals. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

**NEW ISSUE—BOOK ENTRY ONLY**

**UNDERLYING RATING: Not Rated**  
**BAM INSURED RATING: S&P "AA" (STABLE OUTLOOK)**  
**SEE: "BOND INSURANCE" AND "MUNICIPAL BOND RATING"**

THE BONDS ARE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

See "TAX MATTERS—Qualified Tax-Exempt Obligations".



**\$4,575,000**  
**CANYON FALLS WATER CONTROL AND IMPROVEMENT**  
**DISTRICT NO. 2 OF DENTON COUNTY**  
*(A political subdivision of the State of Texas located within Denton County, Texas)*  
**UNLIMITED TAX ROAD BONDS, SERIES 2018**

The bonds described above (the "Bonds") are obligations solely of Canyon Falls Water Control and Improvement District No. 2 of Denton County (the "District") and are not obligations of the State of Texas, Denton County, the Town of Northlake, Texas or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. **THE BONDS ARE SUBJECT TO CERTAIN RISK FACTORS DESCRIBED HEREIN.** See "RISK FACTORS."

**Dated Date: October 15, 2018**  
**Interest Accrues: Delivery Date**

**Due: February 15, as shown on page 2**

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon surrender of the Bonds for payment. Interest on the Bonds is payable each February 15 and August 15, commencing February 15, 2019, until maturity or prior redemption. Interest on the Bonds accrues from the date of delivery to the Initial Purchaser, as defined herein (the "Delivery Date"), and will be payable on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Owners (as defined herein) 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 Owners. So long as Cede & Co. is the Owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS--Book-Entry-Only System".

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"). See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS."



**MATURITY SCHEDULE, INTEREST RATES,**  
**INITIAL REOFFERING YIELDS, AND CUSIP NUMBERS**

See Schedule on page 2

The Bonds are offered, when, as and if issued by the District subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the legal opinion of Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Disclosure Counsel to the District. See "LEGAL MATTERS." Delivery of the Bonds is expected through DTC on or about November 15, 2018.

**MATURITY SCHEDULE, INTEREST RATES,  
INITIAL YIELDS AND CUSIP NUMBERS**

**CUSIP Prefix: 138854<sup>(a)</sup>**

**SERIAL BONDS**

<u>Maturity Amount</u>	<u>Maturity (February 15)</u>	<u>Interest Rate</u>	<u>Initial Yield <sup>(b)</sup></u>	<u>CUSIP Suffix <sup>(a)</sup></u>	<u>Maturity Amount</u>	<u>Maturity (February 15)</u>	<u>Interest Rate</u>	<u>Initial Yield <sup>(b)</sup></u>	<u>CUSIP Suffix <sup>(a)</sup></u>
\$ 125,000	2020	5.000%	2.450%	BV5	145,000	2025	5.000%	3.150%	CA0
130,000	2021	5.000%	2.600%	BW3	150,000	2026 <sup>(c)</sup>	5.000%	3.200%	CB8
130,000	2022	5.000%	2.750%	BX1	155,000	2027 <sup>(c)</sup>	5.000%	3.250%	CC6
135,000	2023	5.000%	2.850%	BY9	160,000	2028 <sup>(c)</sup>	5.000%	3.300%	CD4
140,000	2024	5.000%	3.000%	BZ6					

**TERM BONDS**

\$700,000 3.750% Term Bonds Due February 15, 2032 <sup>(c)</sup> Initial Price \$98.250 CUSIP #138854CH5 <sup>(a)</sup>  
 \$815,000 4.000% Term Bonds Due February 15, 2036 <sup>(c)</sup> Initial Price \$98.625 CUSIP #138854CM4 <sup>(a)</sup>  
 \$460,000 4.000% Term Bonds Due February 15, 2038 <sup>(c)</sup> Initial Price \$98.250 CUSIP #138854CP7 <sup>(a)</sup>  
 \$500,000 4.125% Term Bonds Due February 15, 2040 <sup>(c)</sup> Initial Price \$98.750 CUSIP #138854CR3 <sup>(a)</sup>  
 \$830,000 4.125% Term Bonds Due February 15, 2043 <sup>(c)</sup> Initial Price \$98.000 CUSIP #138854CU6 <sup>(a)</sup>

(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor (as defined herein) or the Initial Purchaser (as defined herein) shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(b) Initial yield represents the initial offering yield to the public which has been established by the Initial Purchaser for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.

(c) The Bonds maturing on and after February 15, 2026 are subject to redemption prior to maturity at the option of the District, in whole or in part, on February 15, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. The Bonds maturing on February 15, 2032, February 15, 2036, February 15, 2038, February 15, 2040 and February 15, 2043 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to maturity as described herein. See "THE BONDS - Redemption Provisions."

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

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

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

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, and engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Crawford & Jordan LLP, General Counsel to the District, 3100 McKinnon Street, Suite 1100, Dallas, TX 75201, for further 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 as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT--Updating the Official Statement".

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

##### **AWARD OF THE BONDS**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") bearing the interest rates shown on page 2 hereof, at a price of 97.326449% of the principal amount thereof which resulted in a net effective interest rate of 4.313413% as calculated pursuant to the Notice of Sale and Bidding Instructions.

##### **PRICES AND MARKETABILITY**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate, acceptable to Bond Counsel, executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which the Bonds have been offered for sale. 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.

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 the offering of the Bonds, the Initial Purchaser may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

##### **SECURITIES LAWS**

No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no

responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds will not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

**NO UNDERLYING MUNICIPAL BOND RATING**

No application for an underlying rating on the Bonds was made to a rating service, and it is not expected that the District would have been successful in obtaining an investment grade rating had such application been made.

**MUNICIPAL BOND INSURANCE**

S&P Global Ratings, a division of S&P Global Inc. ("S&P") is expected to assign its municipal bond rating of "AA" (stable outlook) with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal of and interest on the Bonds will be issued by BAM. See "MUNICIPAL BOND RATING", "BOND INSURANCE", and "BOND INSURANCE RISK FACTORS".

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**OFFICIAL STATEMENT SUMMARY**

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. **THE SUMMARY MUST NOT BE DETACHED AND MUST BE USED IN CONJUNCTION WITH MORE COMPLETE INFORMATION CONTAINED HEREIN. A FULL REVIEW MUST BE MADE OF THE ENTIRE OFFICIAL STATEMENT AND OF THE DOCUMENTS SUMMARIZED OR DESCRIBED THEREIN.**

**THE DISTRICT**

**Description** ..... Canyon Falls Water Control and Improvement District No. 2 of Denton County (the "District") consists of approximately 514 acres of land and is located wholly within the Town of Northlake, Texas ("Northlake"). The District was created by order of the Texas Commission on Environmental Quality (the "TCEQ"), dated October 8, 2008, as a water control and improvement district with waste disposal and storm water control powers, and was confirmed by election on November 6, 2012. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to water control and improvement districts and particularly Chapters 49 and 51, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. Pursuant to a special Act of the Texas Legislature now codified as Chapter 9046, Special District Local Laws Code, the District was granted authority under Article III, Section 52, Texas Constitution, for road projects, including the right to design, acquire, construct, issue bonds for, improve, operate, and maintain and convey macadamized, graveled, or paved roads, or improvements, including drainage, in aid of those roads. The District is subject to the continuing supervision of the TCEQ, defined below.

**The Canyon Falls**

**Development**..... The District contains a portion of the development known as Canyon Falls. Canyon Falls is a 1,200 acre mixed-use master planned community located in southwestern Denton County approximately 37 miles northwest of the Central Business District of the City of Dallas, approximately 27 miles north of the Central Business District of the City of Fort Worth, and approximately 20 miles south of the City of Denton. Approximately 514 acres of Canyon Falls are located within the District and the corporate limits of Northlake; approximately 173 acres are located within Canyon Falls Municipal Utility District No. 1 of Denton County and the extraterritorial jurisdiction of the Town of Argyle ("Argyle"); and the balance is not located within a special district but is located within the corporate limits of the Town of Flower Mound ("Flower Mound"). Principal access to Canyon Falls is provided from Interstate 35W and FM 1171.

Canyon Falls is currently projected to include a maximum of 2,162 single-family detached lots pursuant to the development agreements with and zoning standards of Northlake, Argyle and Flower Mound, up to 300 multi-family residential units, and approximately 116 acres of commercially-zoned land. As of August 1, 2018, 800 single-family detached homes have been constructed within Canyon Falls. Recreational facilities to serve Canyon Falls have been completed on approximately 7 acres in Northlake. Those facilities include a 6,900 square foot lifestyle building, a 2,700 square foot pool building, fitness facilities, pool, splash pad, and multi-age play equipment. A second 7-acre recreation facility serves the western portion of Canyon Falls. It is constructed within Northlake and consists of a bath house, pool, and multi-age play equipment. Approximately 10 miles of hard surface hiking and biking trails are constructed throughout Canyon Falls. All of such recreational facilities will be available for use by residents of the District. A portion of Canyon Falls is located within the Argyle Independent School District ("Argyle ISD"), and the balance of the development is located within the Northwest Independent School District ("Northwest ISD").

**Status of Development** .....

The District contains a portion of Canyon Falls and is being developed primarily as a single-family residential development. Pursuant to a Facilities Agreement (as defined herein) with and zoning standards of Northlake, approximately 265 acres within the District are planned for residential development to include 1,028 single family detached lots and up to an additional 300 lots may alternatively be developed as multifamily residential units. Approximately 48 acres within the District is planned for commercial development. As of August 1, 2018, water, wastewater and storm drainage facilities and roads have been constructed to serve 617 single-family residential lots on approximately 154 acres within the District, 405 homes have been completed (including occupied and model homes), 27 new homes were under construction and 185 vacant developed lots were available for home construction. Homes in the District have a sales price ranging from approximately \$260,000 to \$560,000. The District includes approximately 163 developable acres, of which approximately 48 acres are planned for commercial, that are not yet provided with utility facilities and roads, and approximately 182 acres of land that are not developable (utility easements, detention, open space, and rights-of way). Approximately 15 acres have been planned for recreational use.

**Outstanding Bonds** ..... The District has previously issued a total of \$10,730,000 in unlimited tax road bonds all of which is currently outstanding.

**Future Debt**..... The Developer (hereinafter defined) and its predecessor have advanced funds on behalf of the District for administration and operating costs and for the construction of water, sewer and drainage facilities and road improvements. After reimbursements are made with proceeds of the Bonds, based upon information provided by the Developer, there will remain approximately \$17,300,000 to be reimbursed to the Developer in the future for such purposes. The District intends to issue additional bonds as soon as feasible and from time to time in the future in order to fully reimburse the Developer, including interest. The District is planning to issue additional debt in calendar year 2019 for the purposes of financing roads and/or water, sanitary sewer, and drainage facilities.

**Developer** ..... On March 31, 2015, NASH Canyon Falls, LLC ("NASH Canyon Falls" or the "Developer"), a Delaware limited liability company, acquired 443.466 acres of land in the District from WS-DCF Development, LLC, a Delaware limited liability company. NASH Canyon Falls acquired an adjoining 70.851 acres of land on May 11, 2015 that was subsequently added to the District.

NASH Canyon Falls was created for the sole purpose of developing Canyon Falls and its only substantial asset consists of land within Canyon Falls. The sole member of NASH Canyon Falls is NORTH AMERICA SEKISUI HOUSE, LLC, a Delaware limited liability company. Development of the District is being managed by Newland Real Estate Group, LLC, which is wholly owned by American Newland Communities, L.P., a Delaware limited partnership. Newland Real Estate Group, LLC is a planned community developer in the United States and has provided planning, development, and management services to project owners for multi-purpose residential and commercial projects in the United States and Canada for more than thirty-seven years.

The Developer is not responsible for, liable for, or has any commitment for payment of the Bonds. The Developer does not have any legal commitment to the District or the owners of the Bonds to continue development of land within the District and the Developer may sell or otherwise dispose of property within the District, or any assets, at any time. Further, the financial condition of the Developer is subject to change.

**Development Financing**..... Land development within the District is being financed by a loan from NASH Financing, LLC, an affiliated entity, maturing on March 31, 2019 with an option to extend. The loan is not secured by a lien on land within the District. As of August 1, 2018, total outstanding borrowings under the loan with respect to the Canyon Falls project were approximately \$59.2 million.

**Home Builders** ..... The Developer has entered into lot sales contracts with Beazer Homes, Coventry Homes, Highland Homes, Meritage Homes, Monterey Homes, Perry Homes, M/I, American Legend, K. Hovnanian and Pulte Homes. Pursuant to such lot sales agreements, each builder is required to make an earnest money deposit and to take down single-family lots within the District at a pace ranging from 12 to 18 lots per quarter, depending upon lot size and home sales price point. According to the Developer, each homebuilder is in substantial compliance with all of the terms of its respective lot sales contract. Homebuilders in the District contract directly with the Developer and have no obligation to or agreement with the District to construct any homes or other improvements in the District.

## THE BONDS

- The Issue** ..... \$4,575,000 Canyon Falls Water Control and Improvement District No. 2 of Denton County Unlimited Tax Road Bonds, Series 2018 (the "Bonds"), dated October 15, 2018 are being issued pursuant to a resolution ("Bond Resolution") authorizing the issuance of the Bonds adopted by the District's Board of Directors as fully registered bonds. The Bonds mature on February 15 in each of the years and in the respective principal amounts shown on the cover page hereof. The Bonds will be issued in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. See "THE BONDS."
- Authority for Issuance** ..... The Bonds are issued pursuant to the Bond Resolution, the Texas Constitution and the general laws of the State of Texas, Chapter 9046, Special District Local Laws Code, and an election held within the boundaries of the District. See "THE BONDS-Authority for Issuance." At an election held within the District on November 5, 2013, voters authorized a total of \$58,905,000 bonds for road improvements. The Bonds are the District's third installment of bonds issued for such purposes. After issuance of the Bonds, the District will have \$43,600,000 in authorized but unissued road bonds.
- Source of Payment** ..... The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See "THE BONDS--Source of Payment."
- Use of Proceeds** ..... Proceeds from the Bonds will be used by the District to reimburse the Developer for and/or to pay for the cost of the acquisition or construction of roads and improvements in aid thereof as shown herein under " USE AND DISTRIBUTION OF BOND PROCEEDS." In addition, proceeds will be used to capitalize approximately 1 month of interest on the Bonds; pay interest on funds advanced by the Developer on behalf of the District; pay engineering, design, and testing fees; pay road right of way costs; and pay costs of issuance of the Bonds.
- Redemption** ..... The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date of redemption. In addition, the Term Bonds maturing on February 15, 2032, February 15, 2036, February 15, 2038, February 15, 2040 and February 15, 2043 are also subject to mandatory sinking fund redemption. See "THE BONDS – Redemption Provisions."
- Payment Record** ..... The Bonds constitute the third series of unlimited tax road bonds issued by the District. The District has previously issued its "Unlimited Tax Road Bonds, Series 2016", and "Unlimited Tax Road Bonds, Series 2017", in the original principal amount of \$5,000,000 and \$5,730,000, respectively all of which remains outstanding (the "Outstanding Bonds"). To date all interest on the Outstanding Bonds has been paid from amounts capitalized from the proceeds thereof.
- Bond Counsel** ..... Allen Boone Humphries Robinson LLP, Houston, Texas.
- General Counsel** ..... Crawford & Jordan LLP, Dallas Texas.
- Disclosure Counsel** ..... McCall, Parkhurst & Horton L.L.P., Dallas, Texas.
- Financial Advisor** ..... Hilltop Securities Inc., Fort Worth, Texas.
- Engineer** ..... J. Volk Consulting, Consulting Engineers, Southlake, Texas.
- Paying Agent/Registrar** ..... BOKF, NA, Dallas, Texas.
- Municipal Bond Insurance and Rating** ..... No application for an underlying rating on the Bonds was made and it is not expected that an investment grade rating would have been obtained had such an application been made. S&P Global Ratings, a division of S&P Global Inc. ("S&P") is expected to assign its municipal bond rating of "AA" (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal of and interest on the Bonds will be issued by BAM. An explanation of such ratings may be obtained from S&P. The fee associated with the S&P rating will be paid by the Initial Purchaser. See "MUNICIPAL BOND RATING", "BOND INSURANCE", and "BOND INSURANCE RISK FACTORS."



***Risk Factors*** ..... THE DISTRICT'S TAX IS LEVIED ONLY ON THE PROPERTY LOCATED WITHIN THE DISTRICT. THEREFORE, THE INVESTMENT SECURITY AND QUALITY OF THE BONDS IS DEPENDENT UPON THE SUCCESSFUL DEVELOPMENT OF PROPERTY AND CONTINUED CONSTRUCTION OF TAXABLE IMPROVEMENTS LOCATED WITHIN THE DISTRICT AND THE PAYMENT AND COLLECTION OF TAXES LEVIED THEREON. THE PURCHASE AND OWNERSHIP OF THE BONDS DESCRIBED HEREIN ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THE ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED "RISK FACTORS."

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**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2018 Taxable Assessed Valuation as of January 1, 2018	\$ 148,200,630 <sup>(a)</sup>
Estimated Taxable Assessed Valuation as of August 1, 2018 (100% of Estimated Market Value)	\$ 163,500,000 <sup>(b)</sup>
Direct Debt	
Outstanding Road Bonds (as of August 1, 2018)	\$ 10,730,000
The Bonds	<u>4,575,000</u>
Gross Direct Debt Outstanding	\$ 15,305,000
Estimated Overlapping Debt	\$ 6,764,124 <sup>(c)</sup>
Total Gross Direct Debt and Estimated Overlapping Debt	\$ 22,069,124
Ratios of Gross Direct Debt to:	
2018 Taxable Assessed Valuation	10.33%
Estimated Taxable Assessed Valuation as of August 1, 2018	9.36%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to	
2018 Taxable Assessed Valuation	14.89%
Estimated Taxable Assessed Valuation as of August 1, 2018	13.50%
Average Annual Debt Service Requirement (2019-2043)	\$ 945,456
Maximum Annual Debt Service Requirement (2021)	\$ 1,043,256
Tax Rate Required to Pay Average Annual Debt Service (2019-2043) at a 95% Collection Rate	
Based upon 2018 Taxable Assessed Valuation (100% of Market Value)	\$ 0.6548
Based upon Estimated Taxable Assessed Valuation as of August 1, 2018	\$ 0.5935
Tax Rate Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate	
Based upon 2018 Taxable Assessed Valuation (100% of Market Value)	\$ 0.7410
Based upon Estimated Taxable Assessed Valuation as of August 1, 2018	\$ 0.6717
2018 District Tax Rate (per \$100 Assessed Valuation)	
Debt Service	\$ 0.5663 <sup>(d)</sup>
Maintenance and Operations	<u>0.1387</u>
Total	\$ 0.7050
Status of Estimated Home Construction as of August 1, 2018	
Single Family Homes Completed and Occupied	377
Single Family Homes Completed and Unoccupied	28
Single Family Homes Under Construction	27
Developed but Vacant Lots	<u>185</u>
Total	617

- (a) As certified by the Denton Central Appraisal District (the "Appraisal District") and represents the certified taxable assessed valuation of property in the District as of January 1, 2018. See "TAXING PROCEDURES." This amount includes \$1,109,483 of uncertified value, which represents the Appraisal District's estimate of the minimum amount of uncertified value that will ultimately be certified.
- (b) The estimated Taxable Assessed Valuation as of August 1, 2018, is intended to add the estimated value of improvements constructed after January 1, 2018 through August 1, 2018 and was provided by the Appraisal District. This estimated assessed value is provided for informational purposes only and taxes will not be levied on such estimated assessed value. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. See "TAXING PROCEDURES."
- (c) See "TAX DATA - Estimated Overlapping Taxes and Overlapping Debt".
- (d) All of the \$0.5663 per \$100 of taxable assessed valuation will be allocated to pay debt service on bonds issued for road purposes.

## OFFICIAL STATEMENT

**\$4,575,000**

### **CANYON FALLS WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2 OF DENTON COUNTY** *(A political subdivision of the State of Texas located within Denton County, Texas)*

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

This Official Statement provides certain information in connection with the issuance by Canyon Falls Water Control and Improvement District No. 2 of Denton County (the "District") of its \$4,575,000 Unlimited Tax Road Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, particularly, Chapters 49 and 51, Texas Water Code, Chapter 9046, Special District Local Laws Code, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), and an election held within the District.

This Official Statement includes descriptions, among others, of the Bonds, the Bond Resolution, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Crawford & Jordan LLP, 3100 McKinnon Street, Suite 1100, Dallas, TX 75201, upon payment of the cost of duplication.

#### **RISK FACTORS**

##### **GENERAL**

The Bonds are obligations solely of the District and not obligations of the State of Texas; Denton County; the Town of Northlake ("Northlake"); or any other political entity other than the District. The Bonds will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

##### **FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS**

*Economic Factors . . .* The stability and/or growth of taxable values in the District is directly related to the vitality of the housing industry in the Dallas/Fort Worth Metropolitan area (the "Metroplex"). The housing and building industry has historically been a cyclical industry, affected by both short and long-term interest rates, availability of mortgage and development funds, employment levels, and general economic conditions. In recent years, the Metroplex has experienced strong economic growth positively affecting local residential development and construction industries. If the overall economy should, from time to time, decline, the demand for single family residential developments could likewise decline.

A substantial portion of the taxable values of the District is derived from the current market value of certain developed lots and undeveloped tracts. The market value of such lots and tracts is related to general economic conditions affecting the demand for single family, multi-family, commercial, retail, and office space. Demand for lots and tracts of this type and the construction of single family, multi-family residential dwellings, and/or commercial projects thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability, and the prosperity and demographic characteristics of the urban center toward which the marketing of such lots and tracts is directed. Decreased levels of construction activity or reduced resale value of such lots and tracts would tend to restrict the growth of property values in the District or could adversely impact such values.

Future development and construction in the District is highly dependent on the availability of financing. Many lenders have become more selective in making real estate loans in the Metroplex. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds to potential builders and home purchasers.

*Credit Markets and Liquidity in the Financial Markets . . .* Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 37 miles northwest of downtown Dallas and 27 miles from downtown Fort Worth, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Metroplex regional economy and national credit and financial markets. A downturn in the economic conditions of the Metroplex and decline in the nation's real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth of the District's property tax base.

*Recent Events in Real Estate Market . . .* In the past few years, the housing and mortgage markets in most parts of the United States have been under pressure due to many economic factors, including the tightening of credit standards, reduction of access to mortgage capital, and interest rate adjustments on many adjustable rate mortgages which have caused property owners to default on their mortgages. Foreclosures have increased as a result to these factors, and residential property values in most areas of the country have generally declined, and until recently the Metroplex has experienced reduced levels of home construction. The District cannot predict what impact, if any, another downturn in the national and local housing market may have on the Metroplex housing market and assessed values of property in the District.

*Competition . . .* The demand for and construction of single-family homes in the District, which is approximately 37 miles from downtown Dallas and 27 miles from downtown Fort Worth, could be affected by competition from other residential developments, including other residential developments located in the north and east portion of the Metroplex area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

*Developers/Landowners Obligation to the District . . .* There are no commitments from or obligations of the Developer (herein defined) or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots or to develop tracts of land would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds continued development of taxable property within the District will increase or maintain its taxable value.

*Dependence on Significant Taxpayers . . .* Based on the 2018 tax rolls, the Developer is responsible for 9.13% of the District's 2018 taxes and home builders are responsible for approximately 6.31% of the District's 2018 taxes. See "TAX DATA – Significant Taxpayers". The ability of any significant taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more significant taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Road Debt Service Fund (defined herein) or any other funds to allow for any such delinquencies. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. Therefore, failure by one or more significant taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis.

*Dependence Upon Developer Advances . . .* Until recently, the District has generated insufficient operating and maintenance tax revenue to pay all of its operation and maintenance expenses. As a result, the Developer has advanced funds to the District (to be reimbursed out of future bond issues) to pay operation and maintenance expenses to the extent that the District's operating and maintenance tax have been insufficient. However, there is no contractual obligation to continue to fund any operating deficiencies and there is no assurance that the Developer will continue to make such advances. Therefore, if there are any such deficiencies, the District may be required to increase its maintenance tax rate to generate sufficient revenues to meet its operation and maintenance obligations or may be required to borrow money for such purposes.

*Impact on District Debt Service Tax Rates . . .* Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2018 certified net taxable assessed valuation of the District is \$148,200,630. After issuance of the Bonds, the average annual debt service requirement will be \$945,456 (2019 through 2043) and the maximum annual debt service requirement will be \$1,043,256 (2021). Assuming no increase or decrease from the 2018 certified net assessed valuation and no use of funds other than tax collections, a tax rate of \$0.6548 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement and a tax rate of \$0.7410 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement (see "DEBT AND FINANCIAL INFORMATION –Debt Service Requirements"). The estimated assessed valuation as of August 1, 2018 within the District is \$163,500,000. Assuming the estimated net assessed valuation as of August 1, 2018 and a 95% collection rate, a tax rate of \$0.5935 per \$100 assessed valuation would be necessary to pay the average annual requirement and a tax rate of \$0.6717 per \$100 net assessed valuation would be necessary to pay the maximum annual requirement. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2018 certified net assessed valuation and the estimated net assessed valuation as of August 1, 2018, the District can make no representations regarding the future level of assessed valuation within the District. Any increase in taxable values depends on the continuing construction and sale of homes and other taxable improvements within the District. See "TAXING PROCEDURES" and "TAX DATA - Tax Adequacy for Debt Service."

*Overlapping Taxes:* The land within the District is located wholly within the corporate limits of Northlake and is subject to taxation by Northlake. There can be no assurances that the composite of the tax rates imposed by all jurisdictions on property in the District will be competitive with the composite of the tax rates imposed on competing projects in the Denton County area. To the extent that such composite rates are not competitive with competing developments, the growth of property tax values in the District and the investments quality or security of the Bonds could be adversely affected.

## **THE EFFECT OF THE FINANCIAL INSTITUTIONS ACT OF 1989 ON TAX COLLECTIONS OF THE DISTRICT**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC or RTC shall not be liable for any penalties or fines, including those arising from the failure to pay any real or personal property tax when due and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as the period for which such tax is imposed.

Certain federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract, and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property which may be owned in the future by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

### **FUTURE DEBT**

Following issuance of the Bonds, the District will have \$43,600,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing roads, \$50,005,000 for acquiring or constructing water, sanitary sewer, and drainage facilities, \$88,355,000 for the refunding of all or a portion of bonds issued for road purposes, and \$50,005,000 for the refunding of all or any portion of bonds issued for water, sanitary sewer, and drainage purposes. To date the Developer has advanced certain funds for administration, operating and construction of utilities and roads for which it has not been reimbursed and will not be reimbursed with proceeds of the Bonds. After the reimbursements are made with proceeds of the Bonds, based on information provided by the Developer, the District will owe approximately \$17,300,000 (based on costs incurred as of August 1, 2018) plus interest to the Developer for administration and operating costs and for road and water, sanitary sewer, and drainage construction costs. The District intends to issue additional bonds in order to fully reimburse the Developer, including interest, and to develop the remainder of undeveloped but developable land within the District. See "THE BONDS--Issuance of Additional Debt" and "THE ROADS AND RELATED IMPROVEMENTS, AND WATER, WASTEWATER, AND DRAINAGE FACILITIES." The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with respect to the issuance of additional bonds, but currently must comply with formulas promulgated by the Attorney General of the State of Texas, in the case of road bonds, and the TCEQ, in the case of water, sewer and drainage bonds, respectively, with regard to assessed valuation and tax rates of the District that may limit the amount of bonds which may be issued in the future. 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. Bonds issued by the District must be approved by the Attorney General of the State of Texas. Any bonds issued to acquire or construct water, sanitary sewer, and drainage facilities must additionally be approved by the TCEQ. The District expects to issue additional bonds to reimburse the Developer for funds advanced for road and/or water, sanitary sewer and drainage facilities when feasible from time-to-time in order to fully develop the District.

### **TAX COLLECTION LIMITATIONS AND FORECLOSURE REMEDIES**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court's stay of enforcement of liens for post-petition taxes against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAXING PROCEDURES--District's Rights in the Event of Tax Delinquencies."

#### **REGISTERED OWNERS' REMEDIES AND BANKRUPTCY**

In the event of default in the payment of principal of or interest on the Bonds, the Owners have a right to seek a writ of mandamus requiring the District to levy sufficient taxes each year to make such payments. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Based on recent Texas court decisions, it is unclear whether Section 49.066, Texas Water Code, effectively waives governmental immunity of a water control and improvement district for suits for money damages. Even if the Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Owners may be limited further 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. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the District to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Bankruptcy Limitation to Registered Owners' Rights."

A district, such as the District, may not be placed into bankruptcy involuntarily.

#### **CONTINUING COMPLIANCE WITH CERTAIN COVENANTS**

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Resolution on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "LEGAL MATTERS" and "TAX MATTERS."

#### **MARKETABILITY**

The District has no agreement with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price in the secondary market of bonds of comparable maturity and quality issued by more traditional issuers.

#### **CHANGES IN TAX LEGISLATION**

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

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## THE BONDS

### DESCRIPTION

The Bonds are dated October 15, 2018, with interest accruing from the date of delivery to the Initial Purchaser, payable on February 15, 2019, and on each August 15 and February 15 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds mature on February 15 of the years and in the amounts shown under "MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS AND CUSIP NUMBERS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. Principal of the Bonds will be payable upon presentation of the Bonds at the principal payment office of BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"). Interest calculations are based upon a 360-day year comprised of twelve 30-day months.

The principal of the Bonds will be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar. If not then subject to the Book-Entry-Only System described below, interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed on or before the Interest Payment Date, by the Paying Agent/Registrar to the Owners on the Record Date (described below under "THE BONDS – Record Date for Interest Payment"), or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Owner at the risk and expense of the Owner, to the address of such Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Owners at the risk and expense of the Owners.

If the date for payment of the principal of or interest on any Bond is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding business day, as defined in the Bond Resolution.

### 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 The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District 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 (hereinafter defined), 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 requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 Standard & Poor's rating of: "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). Please note that these websites are included herein as active textual references only, and the information contained on (or accessed through) these websites is not incorporated herein and should not be construed as part of this Official Statement.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

#### **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-Only System, references in other sections of this Official Statement to "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-Only System, and (ii) except as described above, notices that are to be given to Owners under the Bond Resolution will be given only to DTC.

#### **EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM**

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed securities certificates will be issued to the respective Owners and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Resolution and summarized under caption "Registration and Transfer" below.



## **RECORD DATE FOR INTEREST PAYMENT**

The date for determining the person to whom the interest on the Bonds is payable on any Interest Payment Date means the close of business on the last business day of the calendar month next preceding the Interest Payment Date (the "Record Date").

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest which will be 15 days after the Special Record Date, must be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner appearing on the Register at the close of business on the last business day next preceding the date of mailing of such notice.

## **SOURCE OF PAYMENT**

The Bonds and any debt subsequently issued payable in whole or in part from taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District (see "TAXING PROCEDURES"). The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See "RISK FACTORS." The Bonds are obligations solely of the District and are not obligations of the State of Texas, Denton County, the Town of Northlake, or any political subdivision or entity other than the District.

## **PERFECTED SECURITY INTEREST**

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the taxes granted by the District under the Bond Resolution and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the taxes granted by the District under the Bond Resolution is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the Owners of the Bonds a security interest in such pledge, the District agrees to take such measures as it determines are reasonable and necessary to enable a filing to perfect the security interest in said pledge to occur.

## **FUNDS**

*Road Debt Service Fund:* The Bond Resolution confirms the District's Road Debt Service Fund (the "Road Debt Service Fund"). An amount equal to approximately 1 month interest on the Bonds will be deposited from proceeds from the sale of the Bonds into the Road Debt Service Fund. The Road Debt Service Fund, which constitutes a trust fund for the benefit of the Owners of the Bonds, the Outstanding Bonds, and any additional tax road bonds issued by the District for road purposes is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds, the Outstanding Road Bonds, and any of the District's duly authorized additional bonds issued for road purposes payable in whole or part from taxes. Amounts on deposit in the Road Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar and to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Outstanding Bonds, and any additional bonds issued for road purposes payable from taxes.

*Road Capital Projects Fund:* The Bond Resolution confirms the District's Road Capital Projects Fund (the "Road Capital Projects Fund"). After the initial deposits into the Payment Account and the Capitalized Interest Account, all remaining proceeds of the sale of the Bonds will be deposited into the Road Capital Projects Fund and used to pay costs necessary or appropriate to accomplish the purposes for which the Bonds are issued. Amounts remaining in the Road Capital Projects Fund upon completion of all roads eligible for bond funding shall be transferred to the Road Debt Service Fund. See "ESTIMATED USE AND DISTRIBUTION OF BOND PROCEEDS" for a more complete description of the use of Bond proceeds and the projects related thereto.

## **REDEMPTION PROVISIONS**

*Optional Redemption . . .* The District reserves the right, at its option, to redeem the Bonds maturing on and after February 15, 2026, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on February 15, 2025, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are optionally redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed will be selected by the District. If fewer than all the Bonds of a certain maturity are to be optionally redeemed, the particular Bonds to be redeemed will be selected by the Paying Agent/Registrar by lot or other method of random selection as the Paying Agent/Registrar deems fair and appropriate (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

*Mandatory Redemption:* The Term Bonds maturing on February 15, 2032, February 15, 2036, February 15, 2038, February 15, 2040 and February 15, 2043, are subject to mandatory sinking fund redemption at a price equal to the principal amount thereof plus interest accrued thereon to the redemption date on the dates and in the principal amounts as follows:

Term Bond Maturing February 15, 2032		Term Bond Maturing February 15, 2036		Term Bond Maturing February 15, 2038	
Redemption Date	Principal Amount	Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2029	\$ 165,000	February 15, 2033	\$ 190,000	February 15, 2037	\$ 225,000
February 15, 2030	170,000	February 15, 2034	200,000	February 15, 2038*	235,000
February 15, 2031	180,000	February 15, 2035	210,000		\$ 460,000
February 15, 2032*	185,000	February 15, 2036*	215,000		
	\$ 700,000		\$ 815,000		

Term Bond Maturing February 15, 2040		Term Bond Maturing February 15, 2043	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2039	\$ 245,000	February 15, 2041	\$ 265,000
February 15, 2040*	255,000	February 15, 2042	275,000
	\$ 500,000	February 15, 2043*	290,000
			\$ 830,000

\* Maturity.

At least 45 days prior to the mandatory redemption date for the Term Bonds, the Paying Agent/Registrar will select by lot the Term Bonds to be redeemed. Any Term Bonds, or a portion thereof, not selected for prior redemption will be paid on the date of final maturity. To the extent, however, that Term Bonds which at least 45 days prior to a mandatory redemption date (i) have been previously purchased by the District and delivered to the Paying Agent/Registrar for cancellation or (ii) called for optional redemption in part and other than from a sinking fund redemption payment, the annual sinking fund payment therefor will be reduced, as determined by the District, by the principal amount of the Term Bonds so purchased or redeemed.

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar will authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

*Notice of Redemption; Effect of Redemption:* Notice of any redemption identifying the Bonds to be redeemed in whole or in part will be given by the Paying Agent/Registrar at least 30 days prior to the date fixed for redemption by sending written notice by first class mail to the Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices will state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given will be conclusively presumed to have been duly given, whether or not the Owner receives such notice. By the date fixed for redemption, due provision must be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed will no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption will terminate on the date fixed for redemption.

#### AUTHORITY FOR ISSUANCE

At an election held within the District on November 5, 2013, voters of the District authorized a total of \$58,905,000 in bonds for the purpose or purposes of designing, constructing, acquiring, improving, maintaining, and operating macadamized, graveled, or paved roads or turnpikes, or improvements in aid of these purposes (the "Road Facilities"). The Bonds are the third installment of such authorization issued by the District. After the issuance and sale of the Bonds, \$43,600,000 in principal amount of unlimited tax road bonds for the construction and acquisition of the Road Facilities, will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Resolution; Article III, Section 52 of the Texas Constitution; Chapters 49 and 51 of the Texas Water Code, as amended, and Chapter 9046, Texas Special District Local Laws Code.

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.

#### **REPLACEMENT OF PAYING AGENT/REGISTRAR**

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar by the District. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar must act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District must be a national or state banking institution, 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, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

#### **REGISTRATION AND TRANSFER**

So long as any Bonds remain outstanding, the Paying Agent/Registrar will keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar will provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond will be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefore, to the extent possible and under reasonable circumstances within three business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds will be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate principal amount or maturing amounts, as appropriate, equal to the unpaid principal amount or maturing amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered will be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar will be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the 30-day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange will be paid by the District.

#### **LOST, STOLEN, OR DESTROYED BONDS**

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a damaged or mutilated Bond, the Paying Agent/Registrar will authenticate and deliver in exchange therefore a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, destroyed, or stolen, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, will, upon receipt of certain documentation from the Owner and an indemnity bond, execute and the Paying Agent/Registrar will authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Owners of lost, stolen, destroyed, damaged, or mutilated Bonds will be required to pay the District's costs and fees to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

#### **PAYMENT RECORD**

The District has never defaulted on payment of its debt. To date, all interest paid on the Outstanding Bonds has been paid from amounts capitalized from the proceeds thereof.

## **ISSUANCE OF ADDITIONAL DEBT**

The District intends to issue additional bonds from its voted authorizations for road improvements and for water, sewer and drainage facilities. The District has \$50,005,000 in authorized but unissued unlimited tax bonds for water, sanitary sewer, and drainage purposes. After issuance of the Bonds, the District will have \$43,600,000 in authorized but unissued road bonds. In addition, the District has \$88,355,000 for the purpose of refunding bonds issued for road purposes and \$50,005,000 for the purpose of refunding of bonds issued for water, sanitary sewer, and drainage purposes. See "THE BONDS – Authority for Issuance". Any bonds issued by the District, however, must be approved by the Attorney General of Texas. Approval of the TCEQ is necessary for the issuance of bonds issued to finance the acquisition or construction of water, wastewater or drainage purposes. See "THE DISTRICT - General."

The Bond Resolution 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. 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. However, the District must comply with feasibility tests promulgated by the Attorney General, in the case of bonds issued for road purposes, and the TCEQ, in the case of bonds issued for water, sanitary sewer, and drainage purposes, respectively, with regard to taxable assessed valuations and ad valorem tax rates that may limit the amount of bonds which may be issued from time to time in the future. Furthermore, pursuant to Article III, Section 52 of the Texas Constitution, 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 real property in the District at the time of issuance.

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

## **ABOLITION**

The District lies wholly within the corporate boundaries of the Town of Northlake ("Northlake"). Under existing Texas law, upon making certain findings, upon vote of a least two-thirds of the governing body of Northlake, Northlake may adopt an ordinance abolishing the District. Under certain circumstances, the governing body may be required to submit the ordinance to a popular vote at the next municipal election, in which case the ordinance does not take effect until a majority of the votes received in the election favor the ordinance.

In the event of abolishment of the District, the property of the District vests in Northlake, and Northlake would assume all outstanding indebtedness of the District, including the Bonds and Outstanding Bonds. If any District bonds or other obligations payable in whole or in part from property taxes are assumed by Northlake, the governing body of Northlake shall levy and collect taxes on all taxable property on Northlake in an amount sufficient to pay the principal of and interest on the Bonds, Outstanding Bonds, and other obligations. Northlake may issue refunding bonds in its own name to refund the Bonds or other obligations assumed by Northlake. Northlake is authorized by the Texas Constitution to levy a tax in an amount not greater than \$1.50 per \$100 of assessed value for debt service purposes.

Abolition of the District by Northlake is a policy-making matter within the discretion of the governing body of Northlake, and, therefore, the District makes no representation that Northlake will ever abolish the District and assume its debt, nor does the District make any representation concerning the ability of Northlake to pay debt service on the District's bonds if abolition were to occur.

## **FACILITIES AGREEMENT**

The Developer, the District and Northlake are parties to a "Third Amended and Restated Facilities Agreement," effective November 12, 2015 (the "Facilities Agreement"). The Facilities Agreement contains various agreements among the parties, including: acknowledgement of Northlake of the authority of the District to issue bonds from time to time to fund utility facilities and roads to serve the area of the District and other areas of Northlake; agreement of the Developer and District to acquire and construct water, sanitary sewer and drainage facilities and roads to serve the area of the District and other areas of Northlake, and convey same to Northlake; authority of Northlake to review and approve utility and road design and inspect construction; agreement of Northlake to provide retail water and sewer service to the area of the District for, and use reasonable efforts to insure that capacities are available in amounts sufficient to serve the District; and agreements establishing a process for the issuance of bonds and limitation on certain terms and interest rate of bonds. The term of the Facilities Agreement is 15 years from its effective date.

## **CONSOLIDATION**

The District has the legal authority to consolidate with other districts governed by Chapter 51, Texas Water Code, and, in connection therewith, to provide for the consolidation of its assets and liabilities, with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

## **REGISTERED OWNERS' REMEDIES**

Pursuant to Texas law, the Bond Resolution provides that, in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Resolution into the Road Debt Service Fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Resolution, any Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to observe and perform such covenants, obligations or conditions. Such right is in addition to other rights the Owners may be provided by the laws of the State of Texas.

In the event of default in the payment of principal of or interest on the Bonds, the Owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to an Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Even if the Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Owners may be further 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. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Owners. See "Bankruptcy Limitation to Registered Owners' Rights" below.

## **BANKRUPTCY LIMITATION TO REGISTERED OWNERS' RIGHTS**

The enforceability of the rights and remedies of the Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; 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 the 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 decides 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 an Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Owner's claim against the District.

The District may not be placed into bankruptcy involuntarily.

## **LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

The following is quoted 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.

#### **DEFEASANCE**

The Bond Resolution provides that the District may discharge its obligations to the Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the 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) non-callable 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 Resolution.

Upon such deposit as described above, such Bonds shall no longer be regarded as 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.

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Resolution does not contractually limit such investments, Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

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## THE DISTRICT

### GENERAL

The District consists of approximately 514 acres of land and is located wholly within the corporate limits of the Town of Northlake ("Northlake"). The District was created by order of the TCEQ dated October 8, 2008, as a water control and improvement district with additional waste disposal and storm water control powers and was confirmed by election held within the District on November 6, 2012. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to water control and improvement districts and particularly Chapters 49 and 51, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. In addition, pursuant to Chapter 9046, Special District Local Law Code, the District is granted authority under Article III, Section 52 of the Texas Constitution with respect to roads and improvements in aid thereof.

The District is empowered to finance, purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness for such purposes. The District is also empowered to design, acquire, construct, issue bonds for, improve, operate, and maintain and convey roads or improvements, including drainage, in aid of roads both inside and outside the District. Additionally, the District may provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the TCEQ and the voters of the District. Fire and emergency medical service is provided by Denton County Emergency Service District No. 1 for the District. See "THE BONDS – Issuance of Additional Debt".

The TCEQ exercises continuing supervisory jurisdiction over the District other than with respect to road construction and financing. The District is presently subject to the Facilities Agreement with Northlake. Such agreement imposes requirements on the issuance of bonds by the District and which limit the term and the net effective interest rate on such bonds. Such agreement also requires Northlake's approval of construction plans and limits the number of permitted utility connections within the District. See "THE BONDS – Facilities Agreement."

### THE CANYON FALLS DEVELOPMENT

The District contains a portion of the development known as Canyon Falls. Canyon Falls is a 1,200 acre mixed-use master planned community located in southwestern Denton County approximately 37 miles northwest of the Central Business District of the City of Dallas, approximately 27 miles north of the Central Business District of the City of Fort Worth, and approximately 20 miles south of the City of Denton. Approximately 514 acres of Canyon Falls are located within the District and the corporate limits of Northlake; approximately 173 acres are located within Canyon Falls Municipal Utility District No. 1 of Denton County and the extraterritorial jurisdiction of the Town of Argyle ("Argyle"); and the balance is not located within a special district but is located within the corporate limits of the Town of Flower Mound ("Flower Mound"). Principal access to Canyon Falls is provided from Interstate 35W and FM 1171.

Canyon Falls is currently projected to include a maximum of 2,162 single-family detached lots pursuant to Facilities Agreement with and zoning standards of Northlake, Argyle and Flower Mound, up to 300 multi-family residential units, and approximately 116 acres of commercially-zoned land. As of August 1, 2018, 800 single-family detached homes have been constructed within Canyon Falls. Recreational facilities to serve Canyon Falls have been completed on approximately 7 acres in Northlake. Those facilities include a 6,900 square foot lifestyle building, a 2,700 square foot pool building, fitness facilities, pool, splash pad, and multi-age play equipment. A second 7-acre recreation facility serves the western portion of Canyon Falls. It is constructed within Northlake and consists of a bath house, pool, and multi-age play equipment. Approximately 10 miles of hard surface hiking and biking trails are constructed throughout Canyon Falls. All of such recreational facilities will be available for use by residents of the District. A portion of Canyon Falls is located within the Argyle Independent School District ("Argyle ISD"), and the balance of the development is located within the Northwest Independent School District ("Northwest ISD").

### TAX INCREMENT FINANCING REINVESTMENT ZONE NUMBER ONE – TOWN OF NORTHLAKE, TEXAS

The District is located wholly within Tax Increment Reinvestment Zone Number One, Town of Northlake (the "Zone"). The Zone was created by the Town pursuant Ordinance No. 15 - 1210B, effective December 10, 2015. The Zone may be terminated on the earlier of (a) December 31, 2040; (b) an earlier time designated by subsequent ordinance of the Town Council upon certain events; or (c) the date when all project costs, tax increment bonds, if any, and the interest thereon, and other obligations have been paid in full. Pursuant to Ordinance No. 16-0114D, the Town Council adopted a Project and Financing Plan ("Zone Plan"), providing for the construction of certain public improvements ("Zone Improvements") in or benefitting the Zone that include a Trail System and Park and Recreational Facilities with an estimated cost of \$4,040,245, as well as Street and Road Improvements with an estimated cost of \$1,310,255. The Developer will construct the Trail System and Park and Recreational Facilities and will be reimbursed from future tax increment payments from the Zone to the extent and as provided in the Zone Plan. The Street and Road Improvements will be constructed by the Texas Department of Transportation ("TxDOT"), and Northlake expects to pay TxDOT for such construction from future tax increment payments from the Zone or from proceeds of bonds secured by such increment payments. Northlake's participation in the payment of the costs of the Zone Improvements will

be an annual amount equal to the ad valorem tax revenues actually collected in the Zone from a \$0.0909 tax rate. No taxing units other than Northlake are expected to participate in the Zone and Zone Plan. A more detailed description of the Zone Improvements, methods of financing all estimated project costs, and the expected sources of revenue to finance or pay project costs is set forth in Ordinance No. 16-0114D.

#### **COMMUNITY FACILITIES**

Various community facilities are available to the District and its general geographic area. Fire protection and emergency medical services is provided by Argyle Fire District with funding by Denton County Emergency Services District No. 1. Police protection is provided by Northlake. Approximately 373 acres of land within the District is located within the Northwest ISD, with the remainder of the District located within the Argyle ISD. Students living within Northwest ISD are currently zoned to attend the following schools: Roanoke Elementary, Pike Middle School, and Northwest High School, none of which are located within Canyon Falls. Students living within Argyle ISD are currently zoned to attend the following schools: Hilltop Elementary, Argyle Intermediate, Argyle Middle School, and Argyle High School. Only Argyle Middle School is located within the Canyon Falls.

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**STATUS OF DEVELOPMENT**

The District is being developed as a portion of Canyon Falls, a primarily single-family residential development. As of August 1, 2018, water, wastewater and storm drainage facilities and roads have been constructed to serve 617 single-family residential lots on approximately 154 acres within the District, 405 homes have been completed (including occupied and model homes), 27 new homes were under construction (of which are under contract to a homebuyer) and 185 vacant developed lots were available for home construction. Homes in the District have a sales price ranging from approximately \$260,000 to \$560,000. In addition, the District includes approximately 163 developable acres that are not yet provided with utility service and approximately 182 acres of land that are not developable (utility easements, detention, open space, and rights-of way). Approximately 15 acres have been planned for recreation.

<u>Subdivision Name</u>	<u>Acreage</u>	<u>Number of Proposed Lots</u>	<u>Completed Homes</u>	<u>Homes Under Construction</u>	<u>Vacant Lots Developed</u>
<u>Developed</u>					
Village W1	22.465	84	75	1	8
Village W2 - Phase 1	19.013	98	87	8	3
Village W2 - Phase 2	10.136	51	21	5	25
Village W3 - Phase 1	10.606	40	40	0	0
Village W4 - Phase 1	11.357	46	46	0	0
Village W4 - Phase 2	12.434	63	63	0	0
Village W7	17.899	62	28	3	31
Village E1	13.078	44	0	0	44
Village E2	10.204	37	23	2	12
Village E3	16.029	57	6	8	43
Village E4	6.700	19	0	0	19
Village W3 - Phase 2	4.141	16	16	0	0
<b>Developed Total</b>	<b>154.062</b>	<b>617</b>	<b>405</b>	<b>27</b>	<b>185</b>
<u>Under Construction</u>					
Village W8	7.400	29	0	0	0
Village W9	8.000	41	0	0	0
Village W10	2.100	6	0	0	0
Pennington - Phase 1	38.484	151	0	0	0
Pennington - Phase 2	30.540	120	0	0	0
Pennington - Phase 3	8.526	64	0	0	0
<b>Under Construction Total</b>	<b>95.050</b>	<b>411</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Sub Total</b>	<b>249.112</b>	<b>1,028</b>	<b>405</b>	<b>27</b>	<b>185</b>
Recreation	14.467				
<u>Remaining Areas</u>					
Developable					
Commercial	68.10				
Undevelopable	<u>182.688</u>				
<b>Grand Total</b>	<b>514.367</b>				

**FUTURE DEVELOPMENT**

The District is currently planned as a primarily single-family residential development. Approximately 163 developable acres of land, of which approximately 48 acres are planned for commercial, currently within the District are not yet fully served with water distribution, wastewater collection, storm drainage, or roads. While the Developer anticipates future development of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District.

**MANAGEMENT**

**BOARD OF DIRECTORS**

The District is governed by the Board of Directors (the "Board"), consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Each of the Board members owns land within the District subject to a deed of trust in favor of NASH Canyon Falls. However, none of the directors live within the District. Director elections are held only in even numbered years on the first Saturday in May. The Directors and officers of the District, together with their terms, are listed below:

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Victor Toledo	President	May 4, 2022
Richelle Nemmer Munn	Vice President	May 2, 2020
Leslie Cox Fitzgerald	Secretary	May 4, 2022
Shawn Rockenbaugh	Assistant Secretary	May 2, 2020
Ben Millice	Director	May 2, 2020

All of the directors listed above own land subject to taxation in the District.

The District has no full-time employees. The District contracts with the following entities for professional services.

**TAX ASSESSOR/COLLECTOR . . .** Land and improvements in the District are appraised for taxation by the Denton Central Appraisal District. The District contracts with Ms. Michelle French, Denton County Tax Assessor/Collector, to act as Tax Assessor/Collector for the District.

**ENGINEER . . .** J. Volk Consulting, Consulting Engineers, Southlake, Texas (the "Engineer"), provides consulting engineering services to the District.

**AUDITOR . . .** The District engaged McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, to prepare the District's audited financial statements for the year ended June 30, 2018.

**BOND COUNSEL . . .** Allen Boone Humphries Robinson LLP, Houston, Texas, serves as "Bond Counsel" to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

**GENERAL COUNSEL . . .** Crawford & Jordan, LLP, Dallas, Texas, has been engaged as "General Counsel" to the District. Such firm also provides certain legal services in cooperation with Bond Counsel in connection with the issuance of the Bonds. A portion of the fees of General Counsel relating to the issuance of the Bonds is contingent upon the sale and delivery thereof.

**DISCLOSURE COUNSEL . . .** McCall, Parkhurst, Horton, L.L.P., Dallas, Texas, has been engaged by the District to serve as "Disclosure Counsel" for the District. Fees for services rendered by Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

**FINANCIAL ADVISOR . . .** Hilltop Securities Inc. serves as "Financial Advisor" to the District. The fee to be paid to the Financial Advisor is contingent upon sale and delivery of the Bonds.

**BOOKKEEPER . . .** The District has engaged Ms. Kathi Dye, Kathi Dye & Associates, LLC, to provide bookkeeping services to the District.

## **THE DEVELOPER**

### **ROLE OF A DEVELOPER**

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

### **THE DEVELOPER AND PRINCIPAL LANDOWNER**

On March 31, 2015, NASH Canyon Falls, LLC ("NASH Canyon Falls" or the "Developer"), a Delaware limited liability company, acquired 443.466 acres of land in the District from WS-DCF Development, LLC, a Delaware limited liability company. NASH Canyon Falls acquired an adjoining 70.851 acres of land on May 11, 2015 that was subsequently added to the District.

NASH Canyon Falls was created for the sole purpose of developing Canyon Falls and its only substantial asset consists of land in Canyon Falls. The sole member of NASH Canyon Falls is NORTH AMERICA SEKISUI HOUSE, LLC, a Delaware limited liability company. Development of the District is being managed by Newland Real Estate Group, LLC, which is wholly owned by American Newland Communities, L.P., a Delaware limited partnership. Newland Real Estate Group, LLC is a planned community developer in the United States and has provided planning, development, and management services to project owners for multi-purpose residential and commercial projects in the United States and Canada for more than thirty-seven years.

The Developer is not responsible for, liable for, or has any commitment for payment of the Bonds. The Developer does not have any legal commitment to the District or the owners of the Bonds to continue development of land within the District and the Developer may sell or otherwise dispose of property within the District, or any assets, at any time. Further, the financial condition of the Developer is subject to change.

### **DEVELOPMENT FINANCING**

Land development within the District is being financed with a loan from NASH Financing, LLC, an affiliated entity, maturing on March 31, 2019 with an option to extend. The loan is not secured by a lien on land within Canyon Falls. As of August 2018, total outstanding borrowings under the loan with respect to the Canyon Falls project were approximately \$59.2 million.

### **HOME BUILDERS**

The Developer has entered into lot sales contracts with Beazer Homes, Coventry Homes, Highland Homes, Meritage Homes, Monterey Homes, Perry Homes, M/I, American Legend, K. Hovnanian and Pulte Homes. Pursuant to such lot sales agreements, each builder is required to make an earnest money deposit and to take down single-family lots within the District at a pace ranging from 12 to 18 lots per quarter, depending upon lot size and home sales price point. According to the Developer, each homebuilder is in substantial compliance with all of the terms of its respective lot sales contract. Homebuilders in the District contract directly with the Developer and have no obligation to or agreement with the District to construct any homes or other improvements in the District.

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## **THE ROADS AND RELATED IMPROVEMENTS, AND WATER, WASTEWATER, AND DRAINAGE FACILITIES**

### **REGULATION**

According to the Engineer, the roads and improvements in aid thereof that serve the District (collectively, the "Road Facilities") have been designed in accordance with accepted engineering practices and the then current requirements of various agencies having regulatory or supervisory jurisdiction over the construction and operation of such improvements, including primarily the Town of Northlake and Denton County. The construction of the Road Facilities was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Construction and operation of water, sanitary sewer, and storm drainage facilities that serve the District (collectively, the "Utility Facilities"), as they now exist or as they may be expanded from time to time, is subject to the regulatory jurisdiction of federal, state and local authorities. According to the Engineer, the Utility Facilities 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 and Northlake. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies and inspected by Northlake. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage, if any, into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of Northlake, Denton County, and the Texas Department of Health also exercises regulatory jurisdiction over the Utility Facilities. The regulations and requirements of entities exercising regulatory jurisdiction over the Utility Facilities are subject to revision which, in turn, could require additional expenditures by the District in order to achieve compliance. The following descriptions are based upon information supplied by the Engineer.

### **ROAD FACILITIES**

District construction of the Road Facilities has been financed with funds advanced by the Developer and the Outstanding Bonds. The roads within the District vary in width in accordance with standards adopted by Northlake and are sized to accommodate the anticipated traffic demands of full build out of the property within the District. The roads are constructed with reinforced concrete pavement and curb and gutter on cement or lime stabilized subgrade. Also within the street rights-of way are public utilities such as water, wastewater and drainage lines and franchise utilities. Pursuant to the executed Facilities Agreement with Northlake, Northlake will retain ownership and operation and maintenance responsibility for the Road Facilities.

### **WATER, WASTEWATER AND DRAINAGE FACILITIES**

District construction of the Utility Facilities has been financed with funds advanced by the Developer.

### **DESCRIPTION OF THE UTILITY FACILITIES**

*Water Facilities and Supply* . . . The area within the District lies wholly within the water certificate of convenience and necessity (CCN) number 12915 held by Northlake. Northlake is the provider of retail water service to the users within the District. Pursuant to the Facilities Agreement, and supplemental agreements regarding development standards, the parties have agreed that service will be provided in stages to serve 1,340 single-family residential equivalent connections ("connections") at ultimate development of the District. The initial stage is planned to provide service to 560 connections. The construction of additional water system improvements by the Developer or District is required in connection with providing service beyond 560 connections. Such additional water system improvements are currently under construction with an estimated completion date of January 2019. Once completed, the water system improvements will have the capacity to serve all 1,340 planned connections. Pursuant to the Facilities Agreement, upon completion of a phase of water distribution facilities by or on behalf of the District, the District conveys such facilities to Northlake. Such conveyance is made in consideration of various agreements made by Northlake in the Facilities Agreement, including the agreement to allocate and reserve capacity in such facilities for use by and benefit of the area within the District and assumption of all operation and maintenance responsibilities for such facilities after the expiration of the maintenance bond. The source of water is treated surface water from the Upper Trinity Regional Water District ("UTRWD") delivered to a point of delivery as described in the Facilities Agreement. Northlake has entered into a Regional Treated Water Supply Contract, dated December 2, 2010, with UTRWD pursuant to which it receives wholesale treated water. Northlake has agreed to use reasonable efforts to insure that water is available in amounts sufficient to serve the District area.

*Wastewater Facilities and Treatment* . . . The area within the District lies wholly within the sewer certificate of convenience and necessary (CCN) number 20866 held by Northlake. Northlake is the provider of retail wastewater service to the users within the District. Pursuant to the Facilities Agreement, and supplemental agreements, upon completion of a phase of wastewater collection facilities by or on behalf of the District, the District conveys such facilities to Northlake. Such conveyance is made in consideration of various agreements made by Northlake in such Facilities Agreement, including the agreement to allocate and reserve capacity in such facilities for use by and benefit of the area within the District and assumption of all operation and maintenance responsibilities for such facilities after the expiration of the maintenance bond. Northlake has entered into a four-party agreement with the Trinity River Authority ("TRA"), the City of Flower Mound and the Town of Argyle, to participate in the Denton Creek Wastewater Transportation System. The Developer, on behalf of the District, funded 1.501 million gallons per day (MGD) of capacity in the TRA system capable of serving approximately 1,250 connections. Northlake has entered into a Denton Creek Regional Wastewater Treatment System Sixth Supplemental Contract dated December 1, 2001, with TRA; pursuant to which, it receives wastewater transportation and treatment service. Northlake has agreed to use reasonable efforts to insure that treatment capacity is available in amounts sufficient to serve the District area.

*Drainage Facilities* . . . The drainage design is in compliance with Northlake drainage criteria which includes the Integrated Stormwater Management (ISWM). The enclosed storm drain system includes storm drain lines, curb inlets, drop inlets and various other storm drain infrastructure that generally drain from west to east and north to south through developed areas and unimproved areas towards the Graham Branch tributary and ultimately south into Lake Grapevine.

**USE AND DISTRIBUTION OF BOND PROCEEDS**

**CONSTRUCTION COSTS**

• Canyon Falls-Village W3- Phase 1, Village W4-Phase 1	\$ 981,936
• Canyon Falls - Village W3-Phase 2, Village W4-Phase 2	507,069
• Canyon Falls - Village W2-Phase 1	784,322
• Land Acquisition Cost inclding accrued interest	<u>1,572,286</u>

**Total Construction Costs** **\$ 3,845,613**

**NON-CONSTRUCTION COSTS**

• Bond Discount (97.326449%)	\$ 122,315
• Accrued Interest on Construction Costs	<u>312,137</u>

**Total Non-Construction Costs** **\$ 434,452**

**ISSUANCE COSTS AND FEES**

• Issuance Costs and Professional Fees	\$ 275,425
• State Regulatory Fee	4,575
• Contingency <sup>(a)</sup>	<u>14,935</u>

**Total Issuance Costs and Fees** **\$ 294,935**

**TOTAL BOND ISSUE REQUIREMENT** **\$ 4,575,000**

<sup>(a)</sup> Represents the difference between estimated and actual Bond Discount.

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**DEBT AND FINANCIAL INFORMATION**

**FUTURE DEBT**

Pursuant to an election held November 5, 2013 the resident electors authorized a total \$58,905,000 in bonds for the purpose of constructing, acquiring, improving, maintaining, and operating macadamized, graveled or paved roads and turnpikes, or in aid thereof and \$88,355,000 for the purpose of refunding bonds issued for road purposes. The Bonds are the third installment of such authorization issued by the District. Pursuant to an election held November 6, 2012, the District is also authorized to issue \$50,005,000 for acquiring or constructing water, sanitary sewer, and drainage facilities, and \$50,005,000 for the purpose of refunding of bonds issued for water, sanitary sewer, and drainage bonds purposes all of which remains authorized and unissued. After the issuance and sale of the Bonds, \$43,600,000 in principal amount of unlimited tax road bonds for the construction and acquisition of road facilities and \$88,355,000 for refunding road bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. "THE BONDS – Authority for Issuance." The issuance of additional obligations may increase the District’s tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

Based on present engineering cost estimates and on development plans, in the opinion of the Engineer, the remaining \$43,600,000 principal amount of authorized but unissued unlimited tax bonds for the Road Facilities will be sufficient to fully finance roads to serve the remaining undeveloped but developable land within the District.

Based on present engineering cost estimates and on development plans, in the opinion of the Engineer, the \$50,005,000 principal amount of authorized but unissued unlimited tax bonds for the Utility System will be sufficient to fully finance such utility facilities to serve the developable land within the District.

Following the issuance of the Bonds, based upon information provided by the Developer, there will be approximately \$17,300,000 in additional reimbursable expenditures advanced by the Developer to develop land, including Utility Facilities and Road Facilities improvements within the District, remaining to be reimbursed to the Developer out of proceeds of future bond issues.

The District expects to issue additional bonds to finance roads and utilities when feasible from time-to-time in order to fully develop the District. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. However, the District must comply with feasibility tests promulgated by the Attorney General, in the case of bonds issued for road purposes, and the TCEQ, in the case of bonds issued for water, sanitary sewer, and drainage purposes, respectively, with regard to taxable assessed valuations and ad valorem tax rates that may limit the amount of bonds which may be issued from time to time in the future. Furthermore, pursuant to Article III, Section 52 of the Texas Constitution, 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 real property in the District at the time of issuance. See "THE BONDS – Authority for Issuance" and "Issuance of Additional Debt."

**UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED**

Purpose	Date	Amount	Amount	Amount	Unissued
	Authorized	Authorized	Previously Issued	Being Issued	Balance
Water, Sanitary Sewer, and Drainage Bonds	11/6/2012	\$ 50,005,000	\$ -	\$ -	\$ 50,005,000
Water, Sanitary Sewer, and Drainage Refunding Bonds	11/6/2012	50,005,000	-	-	50,005,000
Road Bonds	11/5/2013	58,905,000	10,730,000	4,575,000	43,600,000
Road Refunding Bonds	11/5/2013	88,355,000	-	-	88,355,000
Total		<u>\$ 247,270,000</u>	<u>\$ 10,730,000</u>	<u>\$ 4,575,000</u>	<u>\$ 231,965,000</u>

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**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2018 Taxable Assessed Valuation as of January 1, 2018	\$ 148,200,630 <sup>(a)</sup>
Estimated Taxable Assessed Valuation as of August 1, 2018 (100% of Estimated Market Value)	\$ 163,500,000 <sup>(b)</sup>
Direct Debt	
Outstanding Road Bonds (as of August 1, 2018)	\$ 10,730,000
The Bonds	<u>4,575,000</u>
Gross Direct Debt Outstanding	\$ 15,305,000
Estimated Overlapping Debt	\$ 6,764,124 <sup>(c)</sup>
Total Gross Direct Debt and Estimated Overlapping Debt	\$ 22,069,124
Ratios of Gross Direct Debt to:	
2018 Taxable Assessed Valuation	10.33%
Estimated Taxable Assessed Valuation as of August 1, 2018	9.36%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to	
2018 Taxable Assessed Valuation	14.89%
Estimated Taxable Assessed Valuation as of August 1, 2018	13.50%
Average Annual Debt Service Requirement (2019-2043)	\$ 945,456
Maximum Annual Debt Service Requirement (2021)	\$ 1,043,256
Tax Rate Required to Pay Average Annual Debt Service (2019-2043) at a 95% Collection Rate	
Based upon 2018 Taxable Assessed Valuation (100% of Market Value)	\$ 0.6548
Based upon Estimated Taxable Assessed Valuation as of August 1, 2018	\$ 0.5935
Tax Rate Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate	
Based upon 2018 Taxable Assessed Valuation (100% of Market Value)	\$ 0.7410
Based upon Estimated Taxable Assessed Valuation as of August 1, 2018	\$ 0.6717
2018 District Tax Rate (per \$100 Assessed Valuation)	
Debt Service	\$ 0.5663 <sup>(d)</sup>
Maintenance and Operations	<u>0.1387</u>
Total	\$ 0.7050
Status of Estimated Home Construction as of August 1, 2018	
Single Family Homes Completed and Occupied	377
Single Family Homes Completed and Unoccupied	28
Single Family Homes Under Construction	27
Developed but Vacant Lots	<u>185</u>
Total	617

- (a) As certified by the Denton Central Appraisal District (the "Appraisal District") and represents the certified net taxable assessed valuation of property in the District as of January 1, 2018. See "TAXING PROCEDURES." This amount includes \$1,109,483 of uncertified value, which represents the Appraisal District's estimate of the minimum amount of uncertified value that will ultimately be certified.
- (b) The estimated Taxable Assessed Valuation as of August 1, 2018, is intended to add the estimated value of improvements constructed after January 1, 2018 through August 1, 2018 and was provided by the Appraisal District. This estimated assessed value is provided for informational purposes only and taxes will not be levied on such estimated assessed value. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. See "TAXING PROCEDURES."
- (c) See "TAX DATA - Estimated Overlapping Taxes and Overlapping Debt".
- (d) All of the \$0.5663 per \$100 of taxable assessed valuation will be allocated to pay debt service on bonds issued for road purposes.

## INVESTMENTS OF THE DISTRICT

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

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. As the District does not and will not own or operate the water or wastewater facilities serving the land within the District, it is not anticipated that any significant operating revenues will be generated and available to pay debt service on the Bonds and Outstanding Bonds. The following summary of the District's General Fund shows net revenues in the District's General Fund as a result of the levy and collection of a maintenance tax. In accordance with the TCEQ recommended procedures, such figures do not include Governmental Fund depreciation expense. See "APPENDIX A – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2018."

GENERAL FUND	Fiscal Year Ended June 30,			
	2018	2017	2016	2015 <sup>(1)</sup>
<b>REVENUES</b>				
Property Taxes	\$ 124,349	\$331,902	\$ 53,370	\$ 7,434
Miscellaneous Revenue	5,439	735	355	7
<b>TOTAL REVENUE</b>	<b>\$ 129,788</b>	<b>\$332,637</b>	<b>\$ 53,725</b>	<b>\$ 7,441</b>
<b>EXPENDITURES</b>				
Current:				
Professional Fees	\$ 89,204	\$ 84,382	\$ 75,705	\$ 55,150
Contracted Services	10,716	8,604	4,098	4
Other Expenditures	12,612	11,441	11,139	13,127
<b>TOTAL EXPENDITURES</b>	<b>\$ 112,532</b>	<b>\$104,427</b>	<b>\$ 90,942</b>	<b>\$ 68,281</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ 17,256</b>	<b>\$228,210</b>	<b>\$ (37,217)</b>	<b>\$ (60,840)</b>
<b>OTHER FINANCING SOURCES</b>				
Developer advances, net	-	50,768	46,190	63,715
<b>EXCESS SOURCES</b>	<b>\$ 17,256</b>	<b>\$278,978</b>	<b>\$ 8,973</b>	<b>\$ 2,875</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>291,778</b>	<b>12,800</b>	<b>3,827</b>	<b>5,496</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 309,034</b>	<b>\$291,778</b>	<b>\$ 12,800</b>	<b>\$ 8,371</b>

(1) Unaudited information provided by the District's bookkeeper.



## DEBT SERVICE REQUIREMENTS

Year Ended 12/31	Outstanding Bonds			The Bonds <sup>(1)</sup>			Total Outstanding Debt	Less: Capitalized	Total Outstanding Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total		Interest on Outstanding Bonds and the Bonds	
2018	\$ -	\$ 329,906	\$ 329,906	\$ -	\$ -	\$ -	\$ 329,906	\$ 329,906	\$ -
2019	-	376,569	376,569	-	146,709	146,709	523,278	251,486	271,792
2020	-	376,569	376,569	125,000	192,488	317,488	694,056	-	694,056
2021	355,000	372,144	727,144	130,000	186,113	316,113	1,043,256	-	1,043,256
2022	365,000	362,244	727,244	130,000	179,613	309,613	1,036,856	-	1,036,856
2023	370,000	351,219	721,219	135,000	172,988	307,988	1,029,206	-	1,029,206
2024	380,000	339,969	719,969	140,000	166,113	306,113	1,026,081	-	1,026,081
2025	390,000	328,419	718,419	145,000	158,988	303,988	1,022,406	-	1,022,406
2026	400,000	316,569	716,569	150,000	151,613	301,613	1,018,181	-	1,018,181
2027	420,000	304,269	724,269	155,000	143,988	298,988	1,023,256	-	1,023,256
2028	430,000	291,519	721,519	160,000	136,113	296,113	1,017,631	-	1,017,631
2029	440,000	278,059	718,059	165,000	129,019	294,019	1,012,078	-	1,012,078
2030	460,000	263,575	723,575	170,000	122,738	292,738	1,016,313	-	1,016,313
2031	475,000	247,941	722,941	180,000	116,175	296,175	1,019,116	-	1,019,116
2032	495,000	231,119	726,119	185,000	109,332	294,332	1,020,451	-	1,020,451
2033	510,000	213,378	723,378	190,000	102,063	292,063	1,015,441	-	1,015,441
2034	530,000	194,534	724,534	200,000	94,263	294,263	1,018,797	-	1,018,797
2035	550,000	174,456	724,456	210,000	86,063	296,063	1,020,519	-	1,020,519
2036	570,000	153,284	723,284	215,000	77,563	292,563	1,015,847	-	1,015,847
2037	595,000	130,913	725,913	225,000	68,763	293,763	1,019,675	-	1,019,675
2038	615,000	107,300	722,300	235,000	59,563	294,563	1,016,863	-	1,016,863
2039	640,000	82,400	722,400	245,000	49,809	294,809	1,017,209	-	1,017,209
2040	665,000	56,300	721,300	255,000	39,497	294,497	1,015,797	-	1,015,797
2041	695,000	29,100	724,100	265,000	28,772	293,772	1,017,872	-	1,017,872
2042	380,000	7,600	387,600	275,000	17,634	292,634	680,234	-	680,234
2043	-	-	-	290,000	5,981	295,981	295,981	-	295,981
	<u>\$ 10,730,000</u>	<u>\$ 5,919,353</u>	<u>\$ 16,649,353</u>	<u>\$ 4,575,000</u>	<u>\$ 2,741,954</u>	<u>\$ 7,316,954</u>	<u>\$ 23,966,308</u>	<u>\$ 581,392</u>	<u>\$ 23,384,915</u>

(1) Average life of the issue – 14.514 years. Interest on the Bonds has been calculated at the rates stated on page 2 hereof.

Average Annual Debt Service Requirement (2019-2043)	\$ 945,456
Maximum Annual Debt Service Requirement (2021)	\$ 1,043,256

## TAX DATA

### AUTHORIZED TAXES

*Debt Service Tax* . . . The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. For the 2018 tax year the District has levied a debt service tax rate of \$0.5663 per \$100 valuation. See "Historical Tax Collections" and "Tax Roll Information" below, "TAXING PROCEDURES," and "RISK FACTORS—Factors Affecting Taxable Values and Tax Payments."

*Maintenance Tax* . . . The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. On November 6, 2012, voters in the District authorized the Board to levy such a maintenance tax at an unlimited rate and amount. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any additional debt service or contract tax for additional bonds which may be issued in the future. The District has been levying a maintenance tax every year since 2013. For tax year 2018, the District has levied a maintenance tax in the amount of \$0.1387 per \$100 assessed valuation.

### TAX EXEMPTIONS

The District has not granted any homestead or other tax exemptions for property located within the District.

### HISTORICAL TAX COLLECTIONS

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

Year	Net Certified	Total Tax Rate	Distribution		Tax Levy <sup>(2)</sup>	% of Total Tax Collections to Tax Levy
	Taxable Assessed Valuation <sup>(1)</sup>		Maintenance	Debt Service		
2014	\$ 1,166,318	\$ 0.7050	\$ 0.7050	\$ 0.0000	\$ 8,223	100.00%
2015	6,031,407	0.7050	0.7050	0.0000	42,522	100.00%
2016	42,351,214	0.7050	0.7050	0.0000	332,216	99.69%
2017	86,537,438	0.7050	0.1387	0.5663	608,032	99.90%
2018	148,200,630	0.7050	0.1387	0.5663	1,044,814 <sup>(3)</sup>	N.A. <sup>(4)</sup>

(1) Net valuation represents final gross assessed value as certified by the Appraisal District less any exemptions granted. See "Tax Roll Information" below for gross assessed value.

(2) Represents actual tax levy, including any adjustments by the Appraisal District, as of August 1, 2018.

(3) Calculated.

(4) In process of collection.

**TAX ROLL INFORMATION**

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES-Valuation of Property for Taxation"). The following represents the composition of property comprising the 2018, 2017, 2016, 2015, and 2014 Certified Taxable Assessed Valuations.

Category	Taxable Appraised Value for Tax Year					
	2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 123,536,435	82.32%	\$ 63,238,070	70.98%	\$ 17,555,119	40.67%
Real, Vacant Lots Tracts	3,102,103	2.07%	4,073,199	4.57%	9,066,450	21.01%
Real, Acreage (Land Only)	149,267	0.10%	2,012,488	2.26%	799,151	1.85%
Real, Farm and Ranch Improvements	9,779,218	6.52%	5,717,124	6.42%	440,708	1.02%
Real, Commercial	16,749	0.01%	16,749	0.02%	-	0.00%
Tangible Personal, Commercial	259,946	0.17%	319,155	0.36%	196,324	0.45%
Real, Inventory	13,231,470	8.82%	13,720,754	15.40%	15,105,184	35.00%
Total Assessed Value	\$ 150,075,188	100.00%	\$ 89,097,539	100.00%	\$ 43,162,936	100.00%
Adjustments	-		-		-	
Less: Total Reductions	(1,874,558)		(2,560,101)		(811,722)	
Taxable Assessed Value	\$ 148,200,630		\$ 86,537,438		\$ 42,351,214	

Category	Taxable Appraised Value for Tax Year			
	2015		2014	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ -	0.00%	\$ -	0.00%
Real, Vacant Lots Tracts	-	0.00%	-	0.00%
Real, Acreage (Land Only)	3,822,119	42.89%	6,249,206	97.69%
Real, Farm and Ranch Improvements	1,273,802	14.29%	147,702	2.31%
Real, Commercial and Industrial	-	0.00%	-	0.00%
Tangible Personal, Business	-	0.00%	-	0.00%
Real, Inventory	3,816,137	42.82%	-	0.00%
Total Assessed Value	\$ 8,912,058	100.00%	\$ 6,396,908	100.00%
Adjustments	924,485		990,063	
Less: Total Reductions	(3,805,136)		(6,220,653)	
Taxable Assessed Value	\$ 6,031,407		\$ 1,166,318	

## SIGNIFICANT TAXPAYERS

The following table represents the significant taxpayers, the type of property, the taxable assessed value of such property, and such property's appraised value as a percentage of the 2018 Taxable Assessed Valuation of \$148,200,630. This represents ownership as of January 1, 2018. See "RISK FACTORS — Factors Affecting Taxable Values and Tax Payments – Dependence on Major Taxpayers."

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>2018 Taxable Assessed Valuation</u>	<u>% of Total Taxable Assessed Valuation</u>
Nash Canyon Falls, LLC <sup>(1)</sup>	Real Estate/Development	\$ 13,530,214	9.13%
Meritage Homes of Texas LLC	Real Estate/Development	4,320,916	2.92%
Beazer Homes Texas LP	Real Estate/Development	2,374,660	1.60%
MHI Partnership, LTD	Real Estate/Development	1,063,844	0.72%
Ashton Dallas Residential LLC	Real Estate/Development	837,682	0.57%
Perry Homes LLC	Real Estate/Development	733,875	0.50%
Homeowners	Residential	552,036	0.37%
Homeowners	Residential	523,562	0.35%
Homeowners	Residential	520,054	0.35%
Homeowners	Residential	515,963	0.35%
	Total	\$ 24,972,806	16.85%

(1) See "The Developer" herein.

Note: As provided by Denton Central Appraisal District.

## TAX ADEQUACY FOR DEBT SERVICE <sup>(1)</sup>

The calculations shown below assume, solely for purposes of illustration: no increase or decrease in assessed valuation over the 2018 Taxable Assessed Valuation (\$148,200,630) and the Estimated Taxable Assessed Valuation as of August 1, 2018 \$163,500,000, no use of debt service funds on hand, and the tax rates necessary to pay the District's average annual debt service requirements on the Bonds. See "RISK FACTORS—Factors Affecting Taxable Values and Tax Payments."

Ratios of Gross Direct Debt to:

2018 Taxable Assessed Valuation	10.33%
Estimated Taxable Assessed Valuation as of August 1, 2018	9.36%

Ratio of Gross Direct Debt and Estimated Overlapping Debt to

2018 Taxable Assessed Valuation	14.89%
Estimated Taxable Assessed Valuation as of August 1, 2018	13.50%

Average Annual Debt Service Requirement (2019-2043)	\$ 945,456
Maximum Annual Debt Service Requirement (2021)	\$ 1,043,256

Tax Rate Required to Pay Average Annual Debt Service (2019-2043) at a 95% Collection Rate

Based upon 2018 Taxable Assessed Valuation (100% of Market Value)	\$ 0.6548
Based upon Estimated Taxable Assessed Valuation as of August 1, 2018	\$ 0.5935

Tax Rate Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate

Based upon 2018 Taxable Assessed Valuation (100% of Market Value)	\$ 0.7410
Based upon Estimated Taxable Assessed Valuation as of August 1, 2018	\$ 0.6717

(1) Includes the Bonds.

**ESTIMATED OVERLAPPING TAXES AND OVERLAPPING DEBT**

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

Taxing Jurisdiction	2018 Taxable Assessed Value	2018 Total Tax Rate	Total Debt	Estimated % Applicable	District's Overlapping Debt 8/1/2018
The District	\$ 148,200,630	\$ 0.705000	\$ 15,305,000 <sup>(1)</sup>	100.00%	\$ 15,305,000
Argyle Independent School District <sup>(2)</sup>	2,158,242,324	1.585050	127,941,246	0.17%	217,500
Denton County	98,442,492,384	0.225574	612,630,000	0.08%	490,104
Denton Co. Emergency Service District No. 1	2,986,093,786	0.100000	-	91.83%	-
Town of Northlake	625,798,532	0.295000	12,015,000	14.90%	1,790,235
Northwest Independent School District <sup>(2)</sup>	16,459,951,482	1.490000	870,670,379	0.49%	4,266,285
<b>Total Direct and Overlapping Tax Debt <sup>(2)</sup></b>		<u>\$ 2.910624</u>			<u>\$ 22,069,124</u>
Ratio of Direct and Overlapping Tax Debt to 2018 Taxable Assessed Valuation . . . . .					14.89%

(1) Includes the Bonds.

(2) The Total Direct and Overlapping Tax Debt includes only Argyle Independent School District as it is the highest maximum tax rate amount. The school districts each serve a separate part of the District and do not overlap one another.

	2018 Tax Rate <sup>(1)</sup> per \$100 Assessed Valuation
Denton County	\$ 0.225574
Town of Northlake	0.295000
Argyle Independent School District <sup>(1)</sup>	1.585050
Denton Co. Emergency Service District No. 1	0.100000
Northwest Independent School District <sup>(1)</sup>	1.490000
<b>Total Overlapping Tax Rate <sup>(1)</sup></b>	<u>\$ 2.205624</u>
 The District	 <u>0.705000</u>
<b>Total Tax Rate <sup>(1)</sup></b>	<b>\$ 2.910624</b>

(1) The Total Tax Rate includes only Argyle Independent School District as it is the highest maximum tax rate amount. The school districts each serve a separate part of the District and do not overlap one another.

## TAXING PROCEDURES

### AUTHORITY TO LEVY TAXES

The Board is authorized to levy a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "RISK FACTORS–Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy, assess, and collect such a tax from year-to-year as described more fully herein under "THE BONDS–Source of Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See "TAX DATA – Authorized Taxes – "Debt Service Tax" and "Maintenance Tax".

### PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL DISTRICT

Title I of the Texas Tax Code ("Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Appraisal District has the responsibility for appraising property for all taxing units within Denton County, including the District. Such appraisal values are subject to review and change by the Denton Central Appraisal Review Board (the "Appraisal Review Board").

### 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 status 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; 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. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. 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 homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. 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 was killed or fatally injured in the line of duty is, subject to certain conditions, also 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.

*Residential Homestead Exemptions:* The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised 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 before July 1. The District has never granted a general residential homestead exemption.

*Freeport Goods and Goods-in-Transit Exemption:* Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and other petroleum products which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing, or fabricating or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within 175 days. Freeport goods are exempted from taxation by Texas law. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible-personal property which are covered by the

Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled, by the owner of such property for the account of the person who, acquired or imported such property. The District has taken action to allow taxation of goods-in-transit, and accordingly, the exemption is not available within the District. A taxpayer may not claim both a Freeport Goods Exemption and a Goods-in-Transit Exemption on the same property.

#### **TAX ABATEMENT**

Denton County or Northlake may designate part of the area within the District as a reinvestment zone. Thereafter, Denton County, Northlake and 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 years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised 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 agreement. The terms of all tax abatement agreements must be substantially the same.

#### **VALUATION OF PROPERTY FOR TAXATION**

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

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10% annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation, or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to 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. If a landowner of qualified open-space land is a member of the U.S. Armed Forces, subject to certain conditions, the appraisal of the land as qualified open-space land does not change while the landowner is deployed or stationed outside of Texas.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

#### **DISTRICT AND TAXPAYER REMEDIES**

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

## **ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE**

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total District tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the District's current year's debt service and contract rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, the District's debt service tax rate cannot be changed by a rollback election.

## **LEVY AND COLLECTION OF TAXES**

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

## **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 for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "TAX DATA – Estimated Overlapping Taxes and Overlapping Debt"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; 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 applicable 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 years for residential and agricultural use property and within six months for all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "RISK FACTORS — "General", — "Tax Collection Limitations and Foreclosure Remedies", and — "Owners' Remedies and Bankruptcy Limitations."

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents enforcement of liens for post-petition taxes from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.



## MUNICIPAL BOND RATING

S&P Global Ratings, a division of S&P Global Inc. is expected to assign its municipal bond rating of "AA" (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal of and interest on the Bonds will be issued by BAM. See "BOND INSURANCE. The forgoing rating expresses only the view of S&P at the time the rating is given. Furthermore, a security rating is not a recommendation to buy, sell, or hold securities. There is no assurance that the rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if, in their respective judgments, circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## BOND INSURANCE

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

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

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

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

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

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

### *Capitalization of BAM*

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

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

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

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

### *Additional Information Available from BAM*

**CREDIT INSIGHTS VIDEOS . . .** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditinsights/](http://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/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

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

## **BOND INSURANCE RISK FACTORS**

**GENERAL . . .** The following risk factors related to municipal bond insurance policies generally apply:

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the registered owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by BAM at such time and in such amounts as would have been due absent such prepayment by the District (unless BAM chooses to pay such amounts at an earlier date). Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE BONDS - Remedies in Event of Default"). BAM may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the registered owners.

In the event BAM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the ad valorem tax revenues pledged in the Bond Order. In the event BAM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of BAM and its claims-paying ability. BAM's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of BAM and of the ratings on the Bonds will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds (see "BOND INSURANCE RISK FACTORS - Claims-Paying Ability and Financial Strength of Municipal Bond Insurers"). The obligations of BAM under the Policy are general obligations of BAM and in an event of default by BAM, the remedies available may be limited by applicable bankruptcy law. None of the District, the Financial Advisor or the Initial Purchaser has made independent investigation into the claims-paying ability of BAM and no assurance or representation regarding the financial strength or projected financial strength of BAM is given.

**CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . .** Moody's, S&P, and Fitch Ratings (the "Rating Agencies") have, over the last several years, downgraded and/or placed on negative watch the claims-paying and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers, including BAM, are possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including BAM. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of BAM, particularly over the life of the Bonds.

## LEGAL MATTERS

### LEGAL PROCEEDINGS

Allen Boone Humphries Robinson LLP, Houston, Texas, serves as Bond Counsel to the District. Crawford & Jordan LLP, Dallas, Texas, serves as General Counsel to the District. McCall, Parkhurst, Horton, L.L.P., Dallas, Texas, serves as Disclosure Counsel to the District. The legal fees paid to 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 upon the sale and delivery of the Bonds. General Counsel also provides certain legal services in connection with the issuance of the Bonds. The fees paid to General Counsel and Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the legal opinion of Bond Counsel, to a like effect and addressing the matters described below under "TAX MATTERS".

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS," "MANAGEMENT – Bond Counsel," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. General Counsel has reviewed the information under "THE BONDS – Abolition – Consolidation" "THE DISTRICT - General" and "MANAGEMENT – General Counsel" solely to determine whether such information fairly summarizes the documents and matters of law referred to therein. Bond Counsel and General Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor has either conducted an investigation of the affairs of the District or the Developer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

### NO MATERIAL ADVERSE CHANGE

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

### NO-LITIGATION CERTIFICATE

The District will furnish the Initial Purchaser a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or, to their knowledge, threatened, either in state or federal courts, contesting or attacking the Bonds, restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest on or the principal of the Bonds, in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds, or affecting the validity of the Bonds or the title of the present officers of the District.

## TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that they will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Initial Purchaser with respect to matters solely within the knowledge of the District, the Financial Advisor and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

#### **TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT BONDS**

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law and based upon the assumptions hereinafter stated (a) The difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

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 Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing is based on the assumptions that (a) the Initial Purchaser has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Bond for purposes of determining the amount of gain or loss recognized by such owner upon 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 plus 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 Bond.

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

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

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2018 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2018.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

### **PREPARATION OF OFFICIAL STATEMENT**

#### **SOURCES AND COMPILATION OF INFORMATION**

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

#### **FINANCIAL ADVISOR**

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

## CONSULTANTS

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

*Tax Assessor/Collector:* The information contained in this Official Statement relating to the breakdown of the District's historical assessed value and significant taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by the Denton Central Appraisal District. Ms. Michelle French, Denton County Tax Assessor Collector, has provided information in the Official Statement regarding District tax collections and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

*Engineer:* The information contained in this Official Statement relating to engineering and to the description of the facilities and, in particular that information included in the sections entitled "THE DISTRICT," and "THE ROADS AND RELATED IMPROVEMENTS AND WATER, WASTEWATER, AND DRAINAGE FACILITIES" has been provided by J. Volk Consulting, Consulting Engineers, and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Auditor:* The District's audited financial statements for the 12 months ended June 30, 2018, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's June 30, 2018 financial statements.

## 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 the Initial Purchaser 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 the ultimate customer.

## CERTIFICATION OF OFFICIAL STATEMENT

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

## CONTINUING DISCLOSURE OF INFORMATION

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

## ANNUAL REPORTS

The information to be updated with respect to the District includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement included under the headings "DEBT AND FINANCIAL INFORMATION", "TAX DATA," (except for "Estimated Overlapping Taxes and Overlapping Debt") and in APPENDIX A (the Audited Financial Statements of the District). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2019.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule") of the United States Securities and Exchange Commission (the "SEC"). The updated information will include audited financial statements for the District, if it commissions an audit and the audit is

completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year within such six-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

#### **EVENT NOTICES**

The District will provide timely notices of specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution 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 financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

#### **AVAILABILITY OF INFORMATION FROM MSRB**

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through the EMMA internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **LIMITATIONS AND AMENDMENTS**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or 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 from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment 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 holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS**

During the past five years the District has complied in all material respects with its prior continuing disclosure agreement made in accordance with the Rule.

**MISCELLANEOUS**

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

VICTOR TOLEDO

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President, Board of Directors  
Canyon Falls Water Control and Improvement District No. 2  
of Denton County

ATTEST:

LESLIE COX FITZGERALD

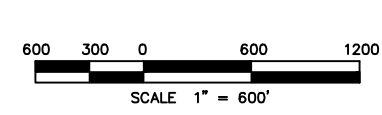
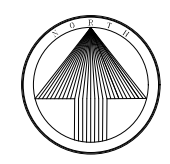
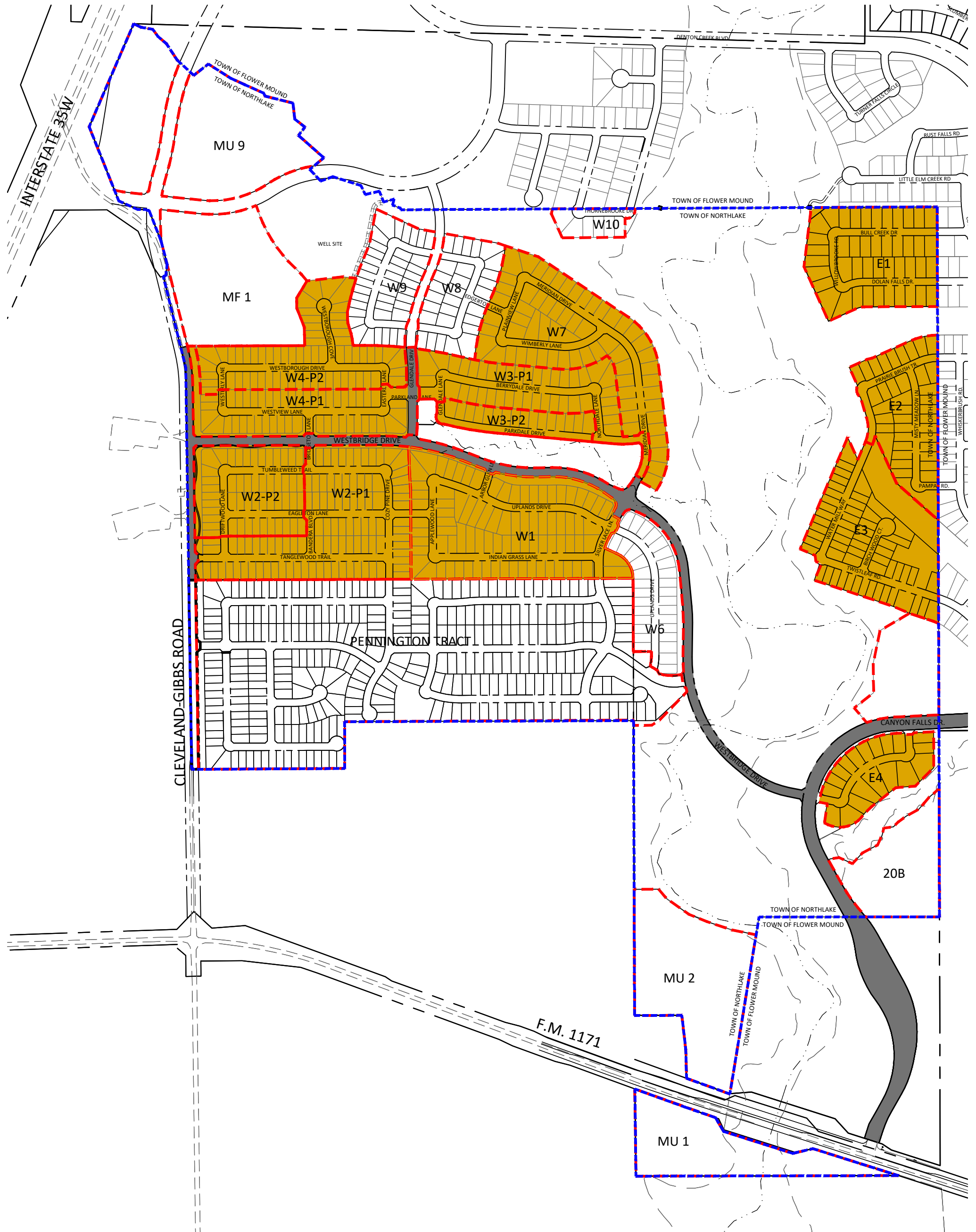
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Secretary, Board of Directors  
Canyon Falls Water Control and Improvement District No. 2  
of Denton County



**DISTRICT DEVELOPED PHASES MAP**

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LEGEND	
	WCID NO. 2 OF DENTON COUNTY BOUNDARY
	PHASE BOUNDARIES
	DEVELOPED MAJOR ROADS
	DEVELOPED PHASES

# CANYON FALLS DISTRICT DEVELOPED PHASES MAP

CANYON FALLS WATER CONTROL IMPROVEMENTS DISTRICT NO. 2 OF DENTON COUNTY, TX  
August 28, 2018

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**PHOTOGRAPHS OF IMPROVEMENTS WITHIN THE DISTRICT**

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**APPENDIX A**

**Audited Financial Statement of the District for the Year Ended June 30, 2018**

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

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Canyon Falls Water Control and Improvement  
District No. 2 of Denton County  
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Canyon Falls Water Control and Improvement District No. 2 of Denton County (the "District"), as of and for the year ended June 30, 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  
Canyon Falls Water Control and Improvement  
District No. 2 of Denton 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 June 30, 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*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

October 2, 2018





**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

Management’s discussion and analysis of Canyon Falls Water Control and Improvement District No. 2 of Denton County (the “District”) financial performance provides an overview of the District’s financial activities for the year ended June 30, 2018.

**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 and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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 current fiscal 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 \$3,561,339 as of June 30, 2018. The following is a comparative analysis of government-wide changes in net position:

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

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

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 1,290,607	\$ 632,162	\$ 658,445
Intangible Assets (Net of Accumulated Amortization)	18,612,473	13,441,136	5,171,337
Total Assets	<u>\$ 19,903,080</u>	<u>\$ 14,073,298</u>	<u>\$ 5,829,782</u>
Due to Developer	\$ 12,585,231	\$ 10,999,626	\$ (1,585,605)
Bonds Payable	10,730,000	5,000,000	(5,730,000)
Other Liabilities	149,188	72,601	(76,587)
Total Liabilities	<u>\$ 23,464,419</u>	<u>\$ 16,072,227</u>	<u>\$ (7,392,192)</u>
Net Position:			
Net Investment in Capital Assets	\$ (4,562,053)	\$ (2,445,340)	\$ (2,116,713)
Restricted	788,306	250,576	537,730
Unrestricted	212,408	195,835	16,573
Total Net Position	<u>\$ (3,561,339)</u>	<u>\$ (1,998,929)</u>	<u>\$ (1,562,410)</u>

The following table provides a summary of the District's operations for the years ended June 30, 2018, and June 30, 2017. The District's net position decreased by \$1,562,410.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 612,075	\$ 332,216	\$ 279,859
Miscellaneous Revenues	8,421	1,501	6,920
Total Revenues	<u>\$ 620,496</u>	<u>\$ 333,717</u>	<u>\$ 286,779</u>
Total Expenses	<u>2,182,906</u>	<u>2,299,957</u>	<u>117,051</u>
Change in Net Position	\$ (1,562,410)	\$ (1,966,240)	\$ 403,830
Net Position, Beginning of Year	<u>(1,998,929)</u>	<u>(32,689)</u>	<u>(1,966,240)</u>
Net Position, End of Year	<u>\$ (3,561,339)</u>	<u>\$ (1,998,929)</u>	<u>\$ (1,562,410)</u>

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

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

The District’s combined fund balances as of June 30, 2018, totaled \$1,281,034, an increase of \$656,268 from the prior year.

The General Fund fund balance increased by \$17,256, primarily due to property tax revenues exceeding general and administrative costs.

The Debt Service Fund fund balance increased by \$611,457, primarily due to the structure of the District’s long-term debt, as well as proceeds received from the sale of Series 2017 Road Bonds.

The Capital Projects Fund fund balance increased by \$27,555. The District sold its Series 2017 Road Bonds in the current fiscal year, proceeds of which were used to reimburse the Developer for infrastructure as well as pay for bond issuance costs.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors adopts a budget prior to the beginning of each fiscal year. Actual revenues were \$9,623 more than budgeted revenues. Actual expenditures were \$5,239 more than budgeted expenditures.

**INTANGIBLE ASSETS**

The District does not own capital assets. As public infrastructure is constructed, it is conveyed to the Town of Northlake, Texas for ownership and maintenance. See also Notes 6 and 9.

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total bond debt payable of \$10,730,000. The changes in the debt position of the District during the fiscal year ended June 30, 2018, are summarized as follows:

Bond Debt Payable, July 1, 2017	\$ 5,000,000
Add: Bond Sale - Series 2017 Road	<u>5,730,000</u>
Bond Debt Payable, June 30, 2018	<u>\$ 10,730,000</u>

The Series 2016 and Series 2017 Road Bonds are not rated.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**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 Canyon Falls Water Control and Improvement District No. 2 of Denton County, c/o Crawford & Jordan, LLP, 3100 McKinnon Street, Suite 1100, Dallas, Texas 75201.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUNDS BALANCE SHEET  
JUNE 30, 2018**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 36,415	\$ 326,048
Investments	281,418	601,381
Property Taxes Receivable	332	1,266
Due from Other Funds		824
Intangible Assets - Right to Receive Service (Net of Accumulated Amortization)		
<b>TOTAL ASSETS</b>	<b>\$ 318,165</b>	<b>\$ 929,519</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 7,975	\$
Accrued Interest Payable		
Due to Developer		
Due to Other Funds	824	
Long-Term Liabilities: Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<b>\$ 8,799</b>	<b>\$ -0-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 332	\$ 1,266
<b>FUND BALANCES</b>		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		928,253
Unassigned	309,034	
<b>TOTAL FUND BALANCES</b>	<b>\$ 309,034</b>	<b>\$ 928,253</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 318,165</b>	<b>\$ 929,519</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 43,747	\$ 406,210 882,799 1,598 824	\$   (824)	\$ 406,210 882,799 1,598
		<u>18,612,473</u>	<u>18,612,473</u>
<u>\$ 43,747</u>	<u>\$ 1,291,431</u>	<u>\$ 18,611,649</u>	<u>\$ 19,903,080</u>
\$	\$ 7,975	\$ 141,213 12,585,231 (824)	\$ 7,975 141,213 12,585,231
		<u>10,730,000</u>	<u>10,730,000</u>
<u>\$ -0-</u>	<u>\$ 8,799</u>	<u>\$ 23,455,620</u>	<u>\$ 23,464,419</u>
<u>\$ - 0 -</u>	<u>\$ 1,598</u>	<u>\$ (1,598)</u>	<u>\$ - 0 -</u>
\$ 43,747	\$ 43,747 928,253 309,034	\$ (43,747) (928,253) (309,034)	\$
<u>\$ 43,747</u>	<u>\$ 1,281,034</u>	<u>\$ (1,281,034)</u>	<u>\$ - 0 -</u>
<u>\$ 43,747</u>	<u>\$ 1,291,431</u>		
		\$ (4,562,053) 788,306 212,408	\$ (4,562,053) 788,306 212,408
		<u>\$ (3,561,339)</u>	<u>\$ (3,561,339)</u>

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

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

Total Fund Balance - Governmental Funds	\$	1,281,034
---	----	-----------

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.		18,612,473
---	--	------------

Deferred inflows of resources related to property tax revenue for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.		1,598
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (12,585,231)	
Accrued Interest Payable	(141,213)	
Bonds Payable	<u>(10,730,000)</u>	<u>(23,456,444)</u>

Total Net Position - Governmental Activities	\$	<u>(3,561,339)</u>
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The accompanying notes to the financial statements are an integral part of this report.



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**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>		
Property Taxes	\$ 124,349	\$ 487,143
Miscellaneous Revenues	<u>5,439</u>	<u>2,954</u>
<b>TOTAL REVENUES</b>	<u>\$ 129,788</u>	<u>\$ 490,097</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 89,204	\$
Contracted Services	10,716	2,024
Amortization		
Other	12,612	
Capital Outlay		
Debt Service:		
Bond Interest		229,916
Bond Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 112,532</u>	<u>\$ 231,940</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<u>\$ 17,256</u>	<u>\$ 258,157</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from Issuance of Long-Term Debt	<u>\$ -0-</u>	<u>\$ 353,300</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 17,256	\$ 611,457
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - JULY 1, 2017</b>	<u>291,778</u>	<u>316,796</u>
<b>FUND BALANCES/NET POSITION - JUNE 30, 2018</b>	<u><u>\$ 309,034</u></u>	<u><u>\$ 928,253</u></u>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 28	\$ 611,492 8,421	\$ 583	\$ 612,075 8,421
<u>\$ 28</u>	<u>\$ 619,913</u>	<u>\$ 583</u>	<u>\$ 620,496</u>
\$	\$ 89,204 12,740	\$	\$ 89,204 12,740
	12,612	1,330,659	1,330,659
4,916,390	4,916,390	(4,916,390)	12,612
	229,916	74,992	304,908
<u>432,783</u>	<u>432,783</u>		<u>432,783</u>
<u>\$ 5,349,173</u>	<u>\$ 5,693,645</u>	<u>\$ (3,510,739)</u>	<u>\$ 2,182,906</u>
<u>\$ (5,349,145)</u>	<u>\$ (5,073,732)</u>	<u>\$ 3,511,322</u>	<u>\$ (1,562,410)</u>
<u>\$ 5,376,700</u>	<u>\$ 5,730,000</u>	<u>\$ (5,730,000)</u>	<u>\$ -0-</u>
\$ 27,555	\$ 656,268	\$ (656,268)	\$
		(1,562,410)	(1,562,410)
<u>16,192</u>	<u>624,766</u>	<u>(2,623,695)</u>	<u>(1,998,929)</u>
<u>\$ 43,747</u>	<u>\$ 1,281,034</u>	<u>\$ (4,842,373)</u>	<u>\$ (3,561,339)</u>

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

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balance - Governmental Funds	\$	656,268
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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.		583
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Governmental funds do not account for amortization. However, in the Statement of Net Position, intangible assets are amortized and amortization expense is recorded in the Statement of Activities.		(1,330,659)
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Governmental funds report capital expenditures as expenditures in the period purchased. The District conveys capital assets to other entities for ownership and records these costs as intangible assets in the Statement of Net Position.		4,916,390
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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.		(74,992)
---	--	----------

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		<u>(5,730,000)</u>
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Change in Net Position - Governmental Activities	\$	<u>(1,562,410)</u>
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The accompanying notes to the financial statements are an integral part of this report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1. CREATION OF DISTRICT**

On December 14, 2006, the Town of Northlake, Texas (the “Town”) consented to the creation of Canyon Falls Water Control and Improvement District No. 2 of Denton County (the “District”). The District was organized under the terms and provisions of Article XVI, Section 59 of the Texas Constitution and the applicable provisions of Chapters 49 and 51 of the Texas Water Code, as amended and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the “Commission”). Voters confirmed the creation of the District at an election held on November 6, 2012. By Order dated October 8, 2008, the Commission approved the creation of the District as a water control and improvement district with waste disposal and storm water control powers pursuant to Section 51.333 of the Texas Water Code.

Subsequently, on or about June 14, 2013, under Special District Local Laws Code Chapter 9046, the District was granted the authority to design, acquire, construct, finance, issue bonds for, improve, operate, maintain, and convey to this state, a county, or a municipality for operation and maintenance macadamized, graveled, or paved roads, or improvements, including storm drainage, in aid of those roads.

**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* as published by the Commission.

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

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”).

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Financial Statement Presentation (Continued)

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of 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.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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.

General Fund - The General Fund accounts for maintenance tax revenues as well as professional fees and administrative costs.

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

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in the governmental funds to be available if they are collectable within sixty 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 the 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 reasonable 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. As of June 30, 2018, the General fund owed the Debt Service Fund \$824 for the over transfer of maintenance tax collections.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Capital Assets

The District does not own capital assets. As public infrastructure is constructed, it is conveyed to the Town of Northlake, Texas for ownership and maintenance.

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 directors are considered to be “employees” 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.

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.



**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Measurement Focus (Continued)

*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.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 3. LONG-TERM DEBT**

	<u>Series 2016 Road</u>	<u>Series 2017 Road</u>
Amounts Outstanding – June 30, 2018	\$ 5,000,000	\$ 5,730,000
Interest Rates	3.00% - 4.00%	2.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	February 15, 2021/2041	February 15, 2021/2042
Interest Payment Dates	August 15/ February 15	August 15/ February 15
Callable Dates	February 15, 2024*	February 15, 2025*

\* The bonds are subject to redemption at the option of the District prior to their maturity in whole or from time to time in part, on the call date or any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2016 Road term bonds maturing on February 15, 2041, are subject to mandatory sinking fund redemption by lot or other customary method at a price equal to par plus accrued interest thereon to the redemption date. Series 2017 Road term bonds maturing on February 15, 2042, are subject to mandatory sinking fund redemption by lot or other customary method at a price equal to par plus accrued interest thereon to the redemption date.

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2018:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Bonds Payable	<u>\$ 5,000,000</u>	<u>\$ 5,730,000</u>	<u>\$ -0-</u>	<u>\$ 10,730,000</u>
		Amount Due Within One Year		\$ -0-
		Amount Due After One Year		<u>10,730,000</u>
		Bonds Payable, Net		<u>\$ 10,730,000</u>

As of June 30, 2018, the District had authorized but unissued bonds in the amount of \$50,005,000 for utility facilities, \$50,005,000 for refunding utility bonds, \$48,175,000 for road facilities and \$88,355,000 for refunding road bonds. The bonds of the District are payable from the proceeds of an annual ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

As of June 30, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$	\$ 376,568	\$ 376,568
2020		376,569	376,569
2021	355,000	376,568	731,568
2022	365,000	367,717	732,717
2023	370,000	356,768	726,768
2024-2028	2,020,000	1,611,043	3,631,043
2029-2033	2,380,000	1,274,456	3,654,456
2034-2038	2,860,000	815,041	3,675,041
2039-2042	2,380,000	223,000	2,603,000
	<u>\$ 10,730,000</u>	<u>\$ 5,777,730</u>	<u>\$ 16,507,730</u>

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

During the year ended June 30, 2018, the District levied an ad valorem debt service tax at the rate of \$0.5663 per \$100 of assessed valuation, which resulted in a tax levy of \$488,409 on the adjusted taxable valuation of \$86,245,726 for the 2017 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

**NOTE 4. SIGNIFICANT BOND RESOLUTION 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, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS**  
(Continued)

The Bond Resolutions state 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.

A portion of the Series 2016 Road bond and Series 2017 Road bond proceeds was deposited into the Debt Service Fund and restricted for the payment of bond interest. Transactions for the current year are summarized as follows:

Restricted for Bond Interest – July 1, 2017	\$ 316,386
Add: Bond Interest Received – Series 2017 Road	353,300
Less: Bond Interest Paid – Series 2016 Road	176,588
Less: Bond Interest Paid – Series 2017 Road	<u>53,328</u>
Restricted for Bond Interest – June 30, 2018	<u>\$ 439,770</u>

**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 \$898,544 and the bank balance was \$884,472. The District was not exposed to custodial credit risk at year-end.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2018, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 36,415	\$ 177,334	\$ 213,749
DEBT SERVICE FUND	326,048	315,000	641,048
CAPITAL PROJECTS FUND	<u>43,747</u>	<u>          </u>	<u>43,747</u>
TOTAL DEPOSITS	<u>\$ 406,210</u>	<u>\$ 492,334</u>	<u>\$ 898,544</u>

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. 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 Local Government Investment Cooperative (“LOGIC”). LOGIC operates a public funds investment pool under the Public Funds Investment Act. The portfolio is managed by J. P. Morgan Investment Management Inc. (J. P. Morgan) and the day-to-day operations are provided by FirstSouthwest, a division of Hilltop Securities Inc. and J. P. Morgan. LOGIC measures its portfolio assets at amortized cost. As a result, the District measures its investments in LOGIC at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from LOGIC.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Investments (Continued)

As of June 30, 2018, the District had the following investments and maturities:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities of Less Than 1 Year</u>
<u>GENERAL FUND</u>		
Certificate of Deposit	\$ 177,334	\$ 177,334
LOGIC	104,084	104,084
<u>DEBT SERVICE FUND</u>		
Certificate of Deposit	315,000	315,000
LOGIC	286,381	286,381
<b>TOTAL INVESTMENTS</b>	<b>\$ 882,799</b>	<b>\$ 882,799</b>

The District records its investments in certificates of deposit at amortized cost. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2018, the District's investment in LOGIC was rated AAAM by Standard and Poor's. The District also manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage or using pledged collateral for balances exceeding FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment LOGIC to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value. The District also manages interest rate risk by typically investing in certificates of deposit with maturities of less than one year.

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

**NOTE 6. INTANGIBLE ASSETS**

In accordance with the Third Amended and Restated Facilities Agreement discussed in Note 9, the District's Developer has constructed water, wastewater and drainage facilities as well as roads needed to serve the land within its boundaries. The Town has accepted conveyance of certain facilities constructed within the District. The District has recognized an intangible asset for the cost of assets constructed and conveyed to the Town. Intangible assets, net of accumulated amortization of \$2,983,880, totaled \$18,612,473 as of June 30, 2018.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7. MAINTENANCE TAX**

On November 6, 2012, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount on each \$100 of assessed valuation of taxable property within the District. During the year ended June 30, 2018, the District levied an ad valorem maintenance tax rate of \$0.1387 per \$100 of assessed valuation, which resulted in a tax levy of \$119,623 on the adjusted taxable valuation of \$86,245,726 for the 2017 tax year. The maintenance tax is to be used by the District for any lawfully authorized purpose.

**NOTE 8. RISK MANAGEMENT**

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

**NOTE 9. THIRD AMENDED AND RESTATED FACILITIES AGREEMENT**

The Third Amended and Restated Facilities Agreement (the “Agreement”) was executed between NASH Canyon Falls, LLC, (“Owner”), and the Town of Northlake, Texas (the “Town”) with an effective date of November 12, 2015. This Agreement replaces the Original Facilities Agreement dated January 26, 2007, the Amended Facilities Agreement dated May 29, 2008, and the Second Amended Facilities Agreement dated November 8, 2012. The term of the Agreement is 15 years from its effective date.

The Agreement states the Owner will pay for the construction of all water, wastewater, drainage, roadway, and other infrastructure necessary to serve development within the District. Upon substantial completion the infrastructure will be conveyed to the Town for ownership and maintenance.

The Town holds Certificates of Convenience and Necessity that includes the property located within the District. The Town will be the retail provider of water service and wastewater service to customers within the District and will charge District customers the rates generally applicable to service within its corporate limits for comparable retail water service and retail wastewater service.

The Town will supply the District with water provided by the Upper Trinity Regional Water District (“Upper Trinity”) based on an agreement between the Town and Upper Trinity dated December 2, 2010. The Town has entered into a Denton Creek Regional Wastewater Treatment System Sixth Supplemental Contract dated December 1, 2001, with TRA; pursuant to which, it receives wastewater transportation and treatment service.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9. THIRD AMENDED AND RESTATED FACILITIES AGREEMENT**  
(Continued)

The Town has allocated to the District 1.501 million gallons per day of the Town's capacity in the Trinity River Authority regional wastewater trunk line known as the Graham Branch Interceptor Line. The Owner's predecessors, Canyon Falls Partners, L.P. and/or McGinnis Land Partners I, L.P., paid \$1,536,081 toward the costs of the District's capacity in the interceptor line and \$294,473 attributable to oversized capacity costs. The Owner can recover these costs from bond proceeds, capital recovery fees, impact fees or other sources of revenue as outlined in the Agreement.

**NOTE 10. REIMBURSEMENT CONTRACT RIGHTS**

A Development Financing Agreement (the "Financing Agreement") was executed by and between WS-DCF Development, LLC ("WS-DCF"), a Delaware limited liability company, and the District on May 15, 2013. The Financing Agreement called for WS-DCF to fund costs associated with the construction of water, sewer, drainage facilities and roads within the District. In addition, the Financing Agreement contemplated that WS-DCF would advance funds to the District in order for the District to meet its financial obligations. Under the Financing Agreement, reimbursement to WS-DCF would come from future bond sales.

On or about March 5, 2014, WS-DCF entered into an agreement to sell a 37.242 acre tract of land within the District (the "Pulte Tract"), to Pulte Homes of Texas, L.P. ("Pulte"). As part of the sale, WS-DCF assigned its rights and obligations in and under the Financing Agreement with respect to the Pulte Tract to Pulte.

Also on March 5, 2014, in consideration for the sale, Pulte reassigned to WS-DCF all of its rights to receive the reimbursements under the Financing Agreement with respect to the Pulte Tract from the sale of bonds issued by the District, or other available alternative sources of funds, including proceeds of bond anticipation notes, for the cost of the waterworks system, sanitary sewer system, drainage and storm system, roads and improvements in aid thereof, and appurtenances comprising the project with respect to the Pulte Tract.

On or about March 31, 2014, WS-DCF entered into an agreement to sell a 38.816 acre tract of land within the District (the "Meritage Tract"), to Meritage Homes of Texas, LLC ("Meritage"). As part of the sale, WS-DCF assigned its rights and obligations in and under the Financing Agreement with respect to the Meritage Tract to Meritage.

Also on March 31, 2014, in consideration for the sale, Meritage reassigned to WS-DCF all of its rights to receive the reimbursements under the Financing Agreement with respect to the Meritage Tract from the sale of bonds issued by District, or other available alternative sources of funds, including proceeds of bond anticipation notes, for the cost of the waterworks system, sanitary sewer system, drainage and storm system, roads and improvements in aid thereof, and appurtenances comprising the project with respect to the Meritage Tract



**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 10. REIMBURSEMENT CONTRACT RIGHTS (Continued)**

Accordingly, WS-DCF was the successor-in-interest under the Financing Agreement as to the Pulte Tract and the Meritage Tracts with respect to the reimbursements (the “Reimbursements”) and WS-DCF was entitled to assert all rights thereunder with respect to such Reimbursements.

Subsequently, under an Agreement for the Purchase and Sale of Real Estate, dated March 20, 2015, executed by Nash Canyon Falls, LLC (“Nash”), as buyer, and WS-DCF, as seller, Nash purchased WS-DCF’s interest in all of WS-DCF’s land within the District. In conjunction with the sale, WS-DCF assigned all of WS-DCF’s right, title, and interest in, to and under the Financing Agreement to receive the Reimbursements, but only with respect to the Pulte Tract and Meritage Tract.

On or about April 20, 2016, WS-DCF assigned all of its remaining right, title, and interest in, to and under the Financing Agreement with respect to land within the District, including the right to receive all reimbursements with respect to the land within the District.

**NOTE 11. BOND SALE**

On November 9, 2017, the District closed on the sale of its \$5,730,000 Series 2017 Unlimited Tax Road Bonds. The proceeds of the bonds were used to reimburse the Developer for the construction of Canyon Falls Villages W1 and W7 paving, Northlake Master Infrastructure grading, paving and related drainage and land acquisition. The District also used the proceeds of the bonds to pay for capitalized interest and costs related to the issuance of the bonds.

**NOTE 12. SUBSEQUENT EVENT**

As of the report date, the District has a pending \$4,575,000 Series 2018 Road Bond sale which is anticipated to close in the last quarter of 2018. Bond proceeds will be used to reimburse the Developer for paving costs for Canyon Falls Village W3 – Phase 1, W4 – Phase 1, W3 – Phase 2, W4 – Phase 2, and W2 – Phase 1 as well as land costs.

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**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2018**



**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 119,985	\$ 124,349	\$ 4,364
Miscellaneous Revenues	<u>180</u>	<u>5,439</u>	<u>5,259</u>
<b>TOTAL REVENUES</b>	<u>\$ 120,165</u>	<u>\$ 129,788</u>	<u>\$ 9,623</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 82,800	\$ 89,204	\$ (6,404)
Contracted Services	9,100	10,716	(1,616)
Other	<u>15,393</u>	<u>12,612</u>	<u>2,781</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 107,293</u>	<u>\$ 112,532</u>	<u>\$ (5,239)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 12,872	\$ 17,256	\$ 4,384
<b>FUND BALANCE - JULY 1, 2017</b>	<u>291,778</u>	<u>291,778</u>	
<b>FUND BALANCE - JUNE 30, 2018</b>	<u>\$ 304,650</u>	<u>\$ 309,034</u>	<u>\$ 4,384</u>

See accompanying independent auditor's report.

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**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY**

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

**JUNE 30, 2018**





**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
SERVICES AND RATES  
FOR THE YEAR ENDED JUNE 30, 2018**

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

_____	Retail Water	_____	Wholesale Water	_____	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 (specify): _____				

Services are provided by the Town of Northlake, Texas. See Note 9.

**2. LOCATION OF DISTRICT:**

The District contains a portion of the development known as Canyon Falls (“Canyon Falls”). Canyon Falls is a 1,200 acre mixed-use master planned community located in southwestern Denton County approximately 37 miles northwest of the Central Business District of the City of Dallas, approximately 27 miles north of the Central Business District of the City of Fort Worth, and approximately 20 miles south of the City of Denton. Approximately 514 acres of Canyon Falls are located within the District and the corporate limits of Northlake; approximately 173 acres are located within Canyon Falls Municipal Utility District No. 1 of Denton County and the extraterritorial jurisdiction of the Town of Argyle; and the balance is not located within a special district but is located within the corporate limits of the Town of Flower Mound.

See accompanying independent auditor’s report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2018**

PROFESSIONAL FEES:	
Auditing	\$ 9,750
Engineering	16,261
Legal	<u>63,193</u>
TOTAL PROFESSIONAL FEES	<u>\$ 89,204</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 1,404
Bookkeeping	8,945
Tax Collector	<u>367</u>
TOTAL CONTRACTED SERVICES	<u>\$ 10,716</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 6,900
Insurance	3,251
Legal Notices	1,150
Payroll Taxes	528
Travel and Meetings	539
Other	<u>244</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 12,612</u>
TOTAL EXPENDITURES	<u><u>\$ 112,532</u></u>

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
INVESTMENTS  
JUNE 30, 2018**

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Certificate of Deposit	XXXX0393	1.04%	06/13/19	\$ 177,334	\$
LOGIC	XXXX4001	Varies	Daily	<u>104,084</u>	<u>                    </u>
TOTAL GENERAL FUND				<u>\$ 281,418</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX0669	1.25%	02/16/19	\$ 315,000	\$
LOGIC	XXXX4002	Varies	Daily	<u>286,381</u>	<u>                    </u>
TOTAL DEBT SERVICE FUND				<u>\$ 601,381</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 882,799</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED JUNE 30, 2018**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - JULY 1, 2017	\$	1,015	\$	-0-
Adjustments to Beginning Balance		4,043	\$	5,058
Original 2017 Tax Levy	\$	120,028	\$	490,061
Adjustment to 2017 Tax Levy		(405)	119,623	(1,652)
TOTAL TO BE ACCOUNTED FOR		\$	124,681	\$
				488,409
TAX COLLECTIONS:				
Prior Years	\$	5,036	\$	
Current Year		119,313	124,349	487,143
TAXES RECEIVABLE - JUNE 30, 2018		\$	332	\$
				1,266
TAXES RECEIVABLE BY YEAR:				
2017	\$	310	\$	1,266
2016		22		
TOTAL	\$	332	\$	1,266

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>PROPERTY VALUATIONS:</b>				
Land	\$ 2,009,232	\$ 799,151	\$ 3,822,119	\$ 6,249,206
Improvements	86,691,941	46,985,360	5,089,939	147,702
Personal Property	349,329	196,324		
Exemptions	<u>(2,804,776)</u>	<u>(858,044)</u>	<u>(2,880,651)</u>	<u>(5,230,590)</u>
<b>TOTAL PROPERTY VALUATIONS</b>	<u>\$ 86,245,726</u>	<u>\$ 47,122,791</u>	<u>\$ 6,031,407</u>	<u>\$ 1,166,318</u>
<b>TAX RATES PER \$100 VALUATION:</b>				
Debt Service	\$ 0.5663	\$ 0.000	\$ 0.000	\$ 0.000
Maintenance	<u>0.1387</u>	<u>0.705</u>	<u>0.705</u>	<u>0.705</u>
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<u>\$ 0.7050</u>	<u>\$ 0.705</u>	<u>\$ 0.705</u>	<u>\$ 0.705</u>
<b>ADJUSTED TAX LEVY*</b>	<u>\$ 608,032</u>	<u>\$ 332,216</u>	<u>\$ 42,522</u>	<u>\$ 8,223</u>
<b>PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED</b>	<u>99.74 %</u>	<u>99.99 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

\* 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 in an unlimited amount per \$100 of assessed valuation approved by voters on November 6, 2012.

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
LONG-TERM DEBT SERVICE REQUIREMENTS  
JUNE 30, 2018**

SERIES - 2016 ROAD

Due During Fiscal Years Ending June 30	Principal Due February 15	Interest Due August 15/ February 15	Total
2019	\$	\$ 176,587	\$ 176,587
2020		176,588	176,588
2021	175,000	176,587	351,587
2022	180,000	171,336	351,336
2023	180,000	165,937	345,937
2024	185,000	160,538	345,538
2025	190,000	154,987	344,987
2026	195,000	149,288	344,288
2027	205,000	143,437	348,437
2028	210,000	137,288	347,288
2029	215,000	130,987	345,987
2030	225,000	124,000	349,000
2031	230,000	116,687	346,687
2032	240,000	108,638	348,638
2033	245,000	100,237	345,237
2034	255,000	91,356	346,356
2035	265,000	81,797	346,797
2036	275,000	71,856	346,856
2037	285,000	61,200	346,200
2038	295,000	49,800	344,800
2039	305,000	38,000	343,000
2040	315,000	25,800	340,800
2041	330,000	13,200	343,200
2042			
	<u>\$ 5,000,000</u>	<u>\$ 2,626,131</u>	<u>\$ 7,626,131</u>

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
LONG-TERM DEBT SERVICE REQUIREMENTS  
JUNE 30, 2018**

SERIES - 2017 ROAD

Due During Fiscal Years Ending June 30	Principal Due February 15	Interest Due August 15/ February 15	Total
2019	\$	\$ 199,981	\$ 199,981
2020		199,981	199,981
2021	180,000	199,981	379,981
2022	185,000	196,381	381,381
2023	190,000	190,831	380,831
2024	195,000	185,131	380,131
2025	200,000	179,281	379,281
2026	205,000	173,281	378,281
2027	215,000	167,131	382,131
2028	220,000	160,681	380,681
2029	225,000	154,081	379,081
2030	235,000	147,050	382,050
2031	245,000	139,413	384,413
2032	255,000	131,144	386,144
2033	265,000	122,219	387,219
2034	275,000	112,944	387,944
2035	285,000	102,975	387,975
2036	295,000	92,288	387,288
2037	310,000	81,225	391,225
2038	320,000	69,600	389,600
2039	335,000	57,200	392,200
2040	350,000	43,800	393,800
2041	365,000	29,800	394,800
2042	380,000	15,200	395,200
	<u>\$ 5,730,000</u>	<u>\$ 3,151,599</u>	<u>\$ 8,881,599</u>

See accompanying independent auditor's report.

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**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
LONG-TERM DEBT SERVICE REQUIREMENTS  
JUNE 30, 2018**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$	\$	\$
2020		376,568	376,568
2021	355,000	376,568	731,568
2022	365,000	367,717	732,717
2023	370,000	356,768	726,768
2024	380,000	345,669	725,669
2025	390,000	334,268	724,268
2026	400,000	322,569	722,569
2027	420,000	310,568	730,568
2028	430,000	297,969	727,969
2029	440,000	285,068	725,068
2030	460,000	271,050	731,050
2031	475,000	256,100	731,100
2032	495,000	239,782	734,782
2033	510,000	222,456	732,456
2034	530,000	204,300	734,300
2035	550,000	184,772	734,772
2036	570,000	164,144	734,144
2037	595,000	142,425	737,425
2038	615,000	119,400	734,400
2039	640,000	95,200	735,200
2040	665,000	69,600	734,600
2041	695,000	43,000	738,000
2042	380,000	15,200	395,200
	<u>\$ 10,730,000</u>	<u>\$ 5,777,730</u>	<u>\$ 16,507,730</u>

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
CHANGES IN LONG-TERM BOND DEBT  
FOR THE YEAR ENDED JUNE 30, 2018**

Description	Original Bonds Issued	Bonds Outstanding July 1, 2017
Canyon Falls Water Control and Improvement District No. 2 of Denton County Unlimited Tax Road Bonds - Series 2016	\$ 5,000,000	\$ 5,000,000
Canyon Falls Water Control and Improvement District No. 2 of Denton County Unlimited Tax Road Bonds - Series 2017	<u>5,730,000</u>	
<b>TOTAL</b>	<u>\$ 10,730,000</u>	<u>\$ 5,000,000</u>

Bond Authority:	Tax Bonds- Utility	Refunding Bonds- Utility	Road Bonds	Refunding Bonds- Road
Amount Authorized by Voters	\$ 50,005,000	\$ 50,005,000	\$ 58,905,000	\$ 88,355,000
Amount Issued			<u>10,730,000</u>	
Remaining to be Issued	<u>\$ 50,005,000</u>	<u>\$ 50,005,000</u>	<u>\$ 48,175,000</u>	<u>\$ 88,355,000</u>
Debt Service Fund cash and investment balances as of June 30, 2018:				<u>\$ 927,429</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:				<u>\$ 687,822</u>

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding June 30, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$	\$ 176,588	\$ 5,000,000	BOKF, N.A. Dallas, TX
<u>5,730,000</u>		<u>53,328</u>	<u>5,730,000</u>	BOKF, N.A. Dallas, TX
<u>\$ 5,730,000</u>	<u>\$ -0-</u>	<u>\$ 229,916</u>	<u>\$ 10,730,000</u>	

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND - THREE YEARS**

	Amounts		
	2018	2017	2016*
<b>REVENUES</b>			
Property Taxes	\$ 124,349	\$ 331,902	\$ 53,370
Miscellaneous Revenues	5,439	735	355
<b>TOTAL REVENUES</b>	<u>\$ 129,788</u>	<u>\$ 332,637</u>	<u>\$ 53,725</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 89,204	\$ 84,382	\$ 75,705
Contracted Services	10,716	8,604	4,098
Other	12,612	11,441	11,139
<b>TOTAL EXPENDITURES</b>	<u>\$ 112,532</u>	<u>\$ 104,427</u>	<u>\$ 90,942</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<u>\$ 17,256</u>	<u>\$ 228,210</u>	<u>\$ (37,217)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer Advances	\$ -0-	\$ 50,768	\$ 46,190
<b>NET CHANGE IN FUND BALANCE</b>	\$ 17,256	\$ 278,978	\$ 8,973
<b>BEGINNING FUND BALANCE</b>	<u>291,778</u>	<u>12,800</u>	<u>3,827</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 309,034</u>	<u>\$ 291,778</u>	<u>\$ 12,800</u>

\* First year audit.

See accompanying independent auditor's report.

Percentage of Total Revenues		
<u>2018</u>	<u>2017</u>	<u>2016*</u>
95.8 %	99.8 %	99.3 %
<u>4.2</u>	<u>0.2</u>	<u>0.7</u>
<u>100.0</u> %	<u>100.0</u> %	<u>100.0</u> %
68.7 %	25.4 %	140.9 %
8.3	2.6	7.6
<u>9.7</u>	<u>3.4</u>	<u>20.7</u>
<u>86.7</u> %	<u>31.4</u> %	<u>169.2</u> %
<u>13.3</u> %	<u>68.6</u> %	<u>(69.2)</u> %

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
DEBT SERVICE FUND - THREE YEARS**

	Amounts		
	2018	2017	2016*
<b>REVENUES</b>			
Property Taxes	\$ 487,143	\$	\$
Miscellaneous Revenues	<u>2,954</u>	<u>760</u>	<u></u>
<b>TOTAL REVENUES</b>	<u>\$ 490,097</u>	<u>\$ 760</u>	<u>\$ -0-</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 1,777	\$	\$
Debt Service Interest and Fees	<u>230,163</u>	<u>37,139</u>	<u></u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 231,940</u>	<u>\$ 37,139</u>	<u>\$ -0-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 258,157</u>	<u>\$ (36,379)</u>	<u>\$ -0-</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Issuance of Long-Term Debt	<u>\$ 353,300</u>	<u>\$ 353,175</u>	<u>\$ -0-</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 611,457	\$ 316,796	\$ -0-
<b>BEGINNING FUND BALANCE</b>	<u>316,796</u>	<u></u>	<u></u>
<b>ENDING FUND BALANCE</b>	<u>\$ 928,253</u>	<u>\$ 316,796</u>	<u>\$ -0-</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

\* First year audit.

See accompanying independent auditor's report.

Percentage of Total Revenues			
<u>2018</u>	<u>2017</u>	<u>2016*</u>	
99.4 %	%	%	%
<u>0.6</u>	<u>100.0</u>		
<u>100.0 %</u>	<u>100.0 %</u>		
0.4 %	%	%	%
<u>47.0</u>	<u>4,886.7</u>		
<u>47.4 %</u>	<u>4,886.7 %</u>		
<u>52.6 %</u>	<u>(4,786.7) %</u>	<u>N/A</u>	%

See accompanying independent auditor's report.

**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
JUNE 30, 2018**

District Mailing Address - Canyon Falls Water Control and Improvement  
District No. 2 of Denton County  
c/o Crawford & Jordan, LLP  
3100 McKinnon, Suite 1100  
Dallas, TX 75201

District Telephone Number - (713) 621-3707

<b>Board Members:</b>	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>June 30, 2018</u>	Expense Reimbursements for the year ended <u>June 30, 2018</u>	<u>Title</u>
Victor Toledo	05/2018 05/2022 (Elected)	\$ 1,650	\$ 119	President
Richelle Munn	06/2016 05/2020 (Appointed)	\$ 1,350	\$ 146	Vice President
Leslie Fitzgerald	05/2018 05/2022 (Elected)	\$ 1,050	\$ 113	Secretary
Shawn Rockenbaugh	08/2017 05/2020 (Appointed)	\$ 1,800	\$ 117	Assistant Secretary
Ben Millice	09/2017 05/2020 (Appointed)	\$ -0-	\$ -0-	Director

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
June 29, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is the maximum amount allowed by law as set by Board Resolution (TWC Section 49.060) on July 17, 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.



**CANYON FALLS WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 2 OF DENTON COUNTY  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
JUNE 30, 2018**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees / Compensation for the year ended June 30, 2018</u>	<u>Title</u>
Crawford & Jordan, LLP	07/24/12	\$ 61,209 \$ 77,300	General Counsel Bond Related
Allen Boone Humphries Robinson LLP		\$ 1,134 \$ 77,869	Attorney Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	05/27/16	\$ 9,750 \$ 9,400	Auditor Bond Related
Kathi Dye, CPA, LLC	07/18/12	\$ 9,107	Bookkeeper
J. Volk Consulting	07/19/13	\$ 46,261	Engineer
Hilltop Securities, Inc.	09/18/15	\$ 110,384	Financial Advisor

See accompanying independent auditor's report.

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**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**

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**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

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

MEMBER: [NAME OF MEMBER]

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

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

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

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

SPECIAL MEMBER

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

Email:

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

Address:

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

Telecopy:

212-962-1524 (attention: Claims)

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