

OFFICIAL STATEMENT DATED NOVEMBER 13, 2018

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B AND UNDER THE STATUTES, REGULATIONS, PUBLISHED RULINGS, AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAXATION SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN.

The Bonds are designated "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

RATINGS: Moody's Investor Services, Inc. (Underlying)..... "Baa2"
Moody's Investor Services, Inc. (AGM Insured) "A2/Stable Outlook"
S&P Global Ratings (AGM Insured) "AA/Stable Outlook"
See "MUNICIPAL BOND INSURANCE" and "RATINGS" herein.

\$3,235,000

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
(A Political Subdivision of the State of Texas, located within Denton County)

UNLIMITED TAX ROAD BONDS, SERIES 2018

Interest accrues from: December 1, 2018

Due: September 1, as shown on inside cover

The \$3,235,000 Denton County Fresh Water Supply District No. 11-B Unlimited Tax Road Bonds, Series 2018 (the "Bonds") are obligations of Denton County Fresh Water Supply District No. 11-B (the "District") and are not obligations of the State of Texas; Denton County, Texas; the Town of Little Elm, Texas; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Denton County, Texas; the Town of Little Elm, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Zions Bancorporation, National Association, Houston, Texas, or any successor paying agent/registrant (the "Paying Agent/Registrar") directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System." Principal of the Bonds is payable to the Registered Owner(s) of the Bonds (the "Bondholder(s)") at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds accrues from December 1, 2018, and is payable on March 1, 2019 (three months interest), and each September 1 and March 1 thereafter until maturity or prior redemption to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof in fully registered form only.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



The Bonds constitute the fourth series of unlimited tax bonds issued by the District for the purpose of financing a road system (the "Road System") to serve the District. The District previously has issued three series of unlimited tax bonds for financing the Road System and two series of unlimited tax bonds for the financing of water, wastewater and drainage facilities (the "Utility System"). Voters of the District have authorized \$29,500,000 principal amount of unlimited tax bonds for road purposes; \$25,600,000 principal amount of unlimited tax bonds for water, wastewater and drainage purposes; and \$55,100,000 principal amount of unlimited tax bonds for refunding purposes at an election held on May 12, 2007. Following the issuance of the Bonds, \$18,015,000 principal amount of unlimited tax bonds for financing the Road System, \$20,210,000 principal amount of unlimited tax bonds for financing the Utility System and \$55,100,000 principal amount of unlimited tax bonds for refunding purposes will remain authorized but unissued. See "THE BONDS – Authority for Issuance" and "– Issuance of Additional Debt."

The Bonds, when issued, will be payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property within the District.

The Bonds are offered when, as and if issued by the District, subject among other things to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton LLP, Dallas, Texas, Bond Counsel. The Bonds in book-entry form are expected to be available for delivery through the facilities of DTC, on or about Wednesday, December 19, 2018. See "LEGAL MATTERS."

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

\$1,420,000 Serial Bonds

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 24880D (b)	Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 24880D (b)
2020	\$ 110,000	5.500%	2.350%	FC5	2027(c)	\$ 120,000	3.250%	3.500%	FK7
2021	115,000	5.500%	2.500%	FD3	2028(c)	115,000	3.500%	3.700%	FL5
2022	110,000	5.500%	2.650%	FE1	2029(c)	120,000	3.500%	3.850%	FM3
2023	115,000	5.500%	2.800%	FF8	-	-	-	-	-
2024(c)	115,000	5.000%	2.950%	FG6	2032(c)	130,000	4.000%	4.050%	FQ4
2025(c)	115,000	3.000%	3.100%	FH4	2033(c)	130,000	4.000%	4.100%	FR2
2026(c)	125,000	3.000%	3.300%	FJ0					

\$1,815,000 Term Bonds

\$255,000 Term Bonds Due September 1, 2031 (c)(d), Interest Rate: 3.750% (Price: \$97.525) (a), CUSIP No. 24880D FP6 (b)
 \$270,000 Term Bonds Due September 1, 2035 (c)(d), Interest Rate: 4.000% (Price: \$98.200) (a), CUSIP No. 24880D FT8 (b)
 \$275,000 Term Bonds Due September 1, 2037 (c)(d), Interest Rate: 4.000% (Price: \$97.421) (a), CUSIP No. 24880D FV3 (b)
 \$315,000 Term Bonds Due September 1, 2039 (c)(d), Interest Rate: 4.000% (Price: \$96.575) (a), CUSIP No. 24880D FX9 (b)
 \$700,000 Term Bonds Due September 1, 2043 (c)(d), Interest Rate: 4.125% (Price: \$97.051) (a), CUSIP No. 24880D GB6 (b)

- (a) The initial reoffering yield has been provided by the Underwriter (defined herein) and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from December 1, 2018, is to be added to the price.
- (b) CUSIP numbers have been assigned to this issue by the CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the Purchasers of the Bonds. None of the District, the Financial Advisor or the Underwriter shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.
- (c) The Bonds maturing on September 1, 2024 and thereafter, are subject to redemption prior to maturity at the option of the District, as a whole or from time to time in part, on September 1, 2023, or any date thereafter at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – *Optional Redemption*."
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions – *Mandatory Redemption*."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Crawford & Jordan LLP, 19 Briar Hollow Lane, Suite 245, Houston, Texas 77027, upon payment of the costs for duplication thereof.

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

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

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

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by SAMCO Capital Markets, Inc. (referred to herein as the "Underwriter"). The Underwriter has agreed to purchase the Bonds, bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the inside cover of this Official Statement, at a price of 97.000000% of principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 4.218035%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

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

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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

Securities Laws

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

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

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

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

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

Capitalization of AGM

At September 30, 2018:

- The policyholders’ surplus of AGM was approximately \$2,203 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (“MAC”) (as described below) were approximately \$1,187 million. Such amount includes 100% of AGM’s contingency reserve and 60.7% of MAC’s contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,863 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM’s wholly owned subsidiary Assured Guaranty (Europe) plc (“AGE”), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 (filed by AGL with the SEC on November 9, 2018).

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

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

Miscellaneous Matters

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

The information above pertaining to AGM has been provided by AGM for use in this Official Statement, and the District takes no responsibility for the accuracy or completeness thereof.

RATINGS

S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P solely in reliance upon the issuance of the municipal bond insurance policy issued by AGM at the time of the delivery of the Bonds.

The Bonds are expected to receive an insured rating of "A2" (stable outlook) from Moody's solely in reliance upon the issuance of the municipal bond insurance policy issued by AGM at the time of the delivery of the Bonds. Moody's has assigned an underlying credit rating of "Baa2" to the Bonds. An explanation of the ratings may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007.

The foregoing ratings express only the views of S&P and Moody's at the time such ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P or Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned the Bonds other than the ratings of S&P and Moody's.

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OFFICIAL STATEMENT SUMMARY

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

THE BONDS

- The Issuer Denton County Fresh Water Supply District No. 11-B (the “District”), a political subdivision of the State of Texas, is located in Denton County, Texas. See “THE DISTRICT.”
- The Issue \$3,235,000 Unlimited Tax Road Bonds, Series 2018 (the “Bonds”). Interest accrues from December 1, 2018, and the Bonds mature on September 1 of each of the years and in the amounts shown on the inside cover hereof. Interest is payable on March 1, 2019 (three months interest), and on each September 1 and March 1 thereafter until maturity or prior redemption. See “THE BONDS – General.”
- Redemption Provisions The Bonds maturing on and after September 1, 2024, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See “THE BONDS – Redemption Provisions – *Optional Redemption*.”
- The Bonds that mature on September 1 in the years 2031, 2035, 2037, 2039 and 2043 are the term bonds (the “Term Bonds”) that are also subject to the mandatory redemption provisions set out herein under “THE BONDS – Redemption Provisions – *Mandatory Redemption*.”
- Source of Payment Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Denton County, the Town of Little Elm or any entity other than the District. See “THE BONDS – Source of Payment.”
- Use of Proceeds Proceeds of the Bonds will be used to pay for roads, road improvements and other related costs, as shown herein under “THE BONDS – Use and Distribution of Bond Proceeds.” Additionally, proceeds from the Bonds will be used to pay for engineering costs related to the financed facilities, six (6) months of capitalized interest, developer interest, and certain costs of issuance of the Bonds.
- Qualified Tax-Exempt Obligations The District designated the Bonds “qualified tax-exempt obligations” pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended (the “Code”), and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2018 is not reasonably expected to exceed \$10,000,000. See “QUALIFIED TAX-EXEMPT OBLIGATIONS.”
- Outstanding Bonds The Bonds are the District’s fourth series of bonds issued for the purpose of financing a road system (the “Road System”). The following bonds have previously been issued for the purpose of financing the Road System: \$2,675,000 Unlimited Tax Bonds, Series 2011; \$2,200,000 Unlimited Tax Road Bonds, Series 2014; and \$3,375,000 Unlimited Tax Road Bonds, Series 2015, of which \$7,525,000 in aggregate principal remains outstanding as of

November 1, 2018 (the “Outstanding Road Bonds”). The District has also issued two series of bonds for the purpose of financing water, wastewater and drainage facilities (the “Utility System”) to serve the District: \$2,020,000 Unlimited Tax Bonds, Series 2014 and \$3,370,000 Unlimited Tax Bonds, Series 2016, of which \$5,035,000 in aggregate principal remains outstanding as of November 1, 2018 (the “Outstanding Utility Bonds”). The Outstanding Road Bonds and Outstanding Utility Bonds are collectively referred to herein as the “Outstanding Bonds.”

Payment Record.....	The District has never defaulted on the timely payment of principal and interest on the Outstanding Bonds. See “THE BONDS – Source of Payment.”
Municipal Bond Insurance	Assured Guaranty Municipal Corp. (“AGM”). See “MUNICIPAL BOND INSURANCE.”
Ratings.....	Moody’s Investors Service, Inc. (Underlying): “Baa2” Moody’s Investors Service, Inc. (AGM Insured): “A2/Stable Outlook” S&P Global Ratings (AGM Insured): “AA/Stable Outlook” See “RATINGS.”
Bond Counsel	McCall, Parkhurst & Horton LLP, Dallas, Texas. See “THE DISTRICT - Management of the District - Bond Counsel” “LEGAL MATTERS – Legal Opinions” and “TAX MATTERS.”
General Counsel	Crawford & Jordan LLP, Houston, Texas. See “THE DISTRICT - Management of the District.”
Disclosure Counsel	McCall, Parkhurst & Horton LLP, Houston, Texas.
Financial Advisor.....	Robert W. Baird & Co. Incorporated, Houston, Texas.
Paying Agent/Registrar.....	Zions Bancorporation, National Association, Houston, Texas.

THE DISTRICT

Description.....	Denton County Fresh Water Supply District No. 11 (“District 11”) was created by the Denton County Commissioner’s Court on December 12, 2000, as a fresh water supply district pursuant to Chapter 53, Texas Water Code, as amended. On January 20, 2001, pursuant to an election within such district, District 11 was authorized to assume sanitary sewer and road district powers. On February 20, 2001, District 11 converted to a water control and improvement district. At an election held on May 3, 2003, voters approved the division of District 11 into Denton County Fresh Water Supply District No. 11-A (“District 11-A”) and the initial Denton County Fresh Water Supply District No. 11-B (“Original District 11-B”). At an election held on November 8, 2005, voters approved the division of Original District 11-B into the current Denton County Fresh Water Supply District No. 11-B (the “District”) and Denton County Fresh Water Supply District No. 11-C (“District 11-C”). Pursuant to such voter-approved divisions, the District succeeded to the rights and powers of its predecessor districts, including sanitary sewer powers and road district powers under Chapter 257, Texas Transportation Code. The District is a conservation and reclamation district and political subdivision of the State of Texas and operates pursuant to Article XVI, Section 59 and Article III, Section 52 of the Constitution of the State of Texas, and Chapters 49, 51 and, for certain purposes, 53, Texas Water Code, as amended. The District currently encompasses approximately 373 acres of land. See “THE DISTRICT”
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Location	The District is located approximately 32 miles northwest of the central downtown business district of the City of Dallas and lies wholly within the extraterritorial jurisdiction of the Town of Little Elm. The District is located within Denton Independent School District (“DISD”) and is bordered on the north by Braswell High School and District 11-A, by undeveloped acreage and District 11-C on the east, by Lake Lewisville on the south, and by District 11-A and Denton County Fresh Water Supply District No. 8-A on the west. Access to the District is provided by the Dallas North Tollway to U.S. Highway 380 and west to Navo Road/Villa Paloma Boulevard. See “THE DISTRICT” and “LOCATION MAP.”
Authority	The Bonds are issued pursuant to the general laws of the State of Texas, including Chapters 49, 51, and for certain purposes, 53, Texas Water Code, as amended; the Bond Order (defined herein); Article III, Section 52 of the Texas Constitution and an election held on May 12, 2007. See “THE BONDS - Authority for Issuance,” and “- Issuance of Additional Debt.”
Status of Development	Development within the District currently consists of Paloma Creek South, Phases 5B, 7A, 7B, 7C, 8A, 8B, 8C, 8D, 9A, and 12 (699 lots on approximately 151 acres) and Northlake Estates Phase 1 (176 lots on approximately 49 acres). As of October 1, 2018, there were approximately 733 completed single-family homes within the District, 19 homes under construction and 123 vacant developed lots available for home construction. The homes being marketed in the District range in size from approximately 1,800 square feet to 4,250 square feet and range in price from approximately \$260,000 to over \$500,000. Approximately 146 acres of developable land within the District have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 25 acres of land are not developable. Recreational amenities for residents within the District include an approximate 2 acre park with a playground. There are also hiking and biking trails throughout Paloma Creek. See “THE DISTRICT – Status of Development.”
Paloma Creek	The District is part of the 1,400 acre master-planned community of Paloma Creek, consisting of the District and four other utility districts (Denton County Fresh Water Supply District Nos. 8-A, 8-B, 11-A and 11-C). Approximately 5,062 single-family residential lots have been constructed in Paloma Creek, including 875 lots in the District. The District is part of the neighborhood of Paloma Creek South.
The Developers and Principal Landowners	Denton 380 Associates, L.P., a Texas limited partnership (“Denton 380”) was formed for the purpose of acquiring and holding for investment and sale tracts of land, including 178 acres of the land in the District. Denton 380 has determined the overall development plan for such 178 acres of land in the District and arranged for the construction of utility trunk lines and the acquisition of water supply and sewage treatment capacity from Upper Trinity Regional Water District to serve all land within the District. PRA 380 Investors, L.P. (“PRA 380”), a Texas limited partnership, is the general partner of Denton 380, and IHP Investment Fund III, L.P. (“IHP”), a California limited partnership, is the limited partner of Denton 380. The general partner of PRA 380 is PRA 380, Inc., a Texas corporation. Leon J. Backes is the President of PRA 380, Inc.

Denton 380 has sold tracts of land in the District to the entities described below. Denton 380 no longer owns any land in the District but has the right to receive reimbursement from the District for operating advances and certain costs of utilities and roads as described herein.

Sandlin Paloma Ltd., a Texas limited partnership and related family entities (“Sandlin Paloma”), acquired approximately 110 acres in the District from Denton 380 on which it developed 283 residential lots as Paloma Creek South Phases 7A, 7B, 7C, 8C and 8D. The general partner of Sandlin Paloma is Sandlin Paloma GP, L.L.C.

Pulte Homes (“Pulte”) purchased approximately 31 acres from Sandlin Paloma on which it has developed 150 residential lots as Paloma Creek South, Phases 8A and 8B.

PRA 2003 No. 3 LP, a Texas limited partnership (“PRA 2003”) acquired approximately 38 acres in the District from Denton 380, including approximately 10 acres that an affiliate of PRA 2003 has developed as Paloma Creek South, Phase 9A (41 lots). The general partner of PRA 2003 No. 3 LP is PRA GP No. 2, Inc., an affiliate of Denton 380.

Paloma Phase 4 Development Corp. (“Paloma 4”), an affiliate of Denton 380, acquired approximately 26 acres in the District from Denton 380 and developed 74 single family lots on such land as Paloma Creek South, Phase 12.

CADG Property Holdings III, LLC (“CADG”), an affiliate of Centurion American Development Group, purchased approximately 195 acres of land in the District. CADG has developed approximately 49 acres of such land as Northlake Estates at Paloma Creek, Phase 1 (176 lots). No representation can be made concerning CADG’s plans for future development, if any, of its remaining 146 acres of developable land or sale of its property within the District.

Beazer Homes (“Beazer”) developed 151 lots in the District as Paloma Creek South, Phase 5B. Beazer is no longer an active developer of land within the District.

Denton 380, Sandlin Paloma, Pulte, Paloma 4, PRA 2003, Beazer and CADG are collectively referred to herein as the “Developers.” See “THE DEVELOPERS – The Developers.”

Homebuilders Builders currently building homes within the District include Lennar Homes, Megatel Homes and Oakdale Homes. The homes being marketed in the District range in size from approximately 1,800 square feet to 4,250 square feet and range in price from approximately \$260,000 to over \$500,000.

INVESTMENT CONSIDERATIONS

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

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2018 Taxable Assessed Valuation.....	\$ 180,353,311 (a)	
(100% of taxable value as of January 1, 2018) See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt:		
The Outstanding Bonds (as of November 1, 2018).....	\$ 12,560,000	
The Bonds	<u>3,235,000</u>	
Total	\$ 15,795,000	
Estimated Overlapping Debt.....	<u>\$ 12,657,031 (b)</u>	
Total Direct and Estimated Overlapping Debt	<u>\$ 28,452,031</u>	
Direct Debt Ratio:		
As a percentage of 2018 Assessed Taxable Valuation	8.76 %	
Direct and Estimated Overlapping Debt Ratio:		
As a percentage of 2018 Assessed Taxable Valuation	15.78 %	
Utility System Debt Service Fund Balance (as of November 13, 2018).....	\$ 367,810 (c)	
Road Debt Service Fund Balance (as of November 13, 2018).....	\$ 352,896 (c)	
General Operating Fund Balance (as of November 13, 2018).....	\$ 1,356,780	
Utility System Capital Projects Fund Balance (as of November 13, 2018).....	\$ 331,874	
Road Capital Projects Fund Balance (as of November 13, 2018).....	\$ 202,742	
2018 Tax Rate		
Utility System Debt Service.....	\$0.180	
Road Debt Service.....	0.310	
Maintenance & Operation	<u>0.410</u>	
Total.....	<u>\$0.900 (d)</u>	
Average Annual Debt Service Requirements		
on the Bonds and Outstanding Bonds (2019-2040, high years).....	\$ 1,053,316 (e)	
Maximum Annual Debt Service Requirements		
on the Bonds and Outstanding Bonds (2038).....	\$ 1,131,288 (e)	
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds and Outstanding Bonds (2019-2040, high years) at 95% Tax Collections: Based Upon 2018 Assessed Valuation (\$180,353,311)		\$0.62
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Bonds and Outstanding Bonds (2038) at 95% Tax Collections: Based Upon 2018 Assessed Valuation (\$180,353,311)		\$0.67
Number of Single-Family Homes (including 19 homes under construction)	752	

(a) As certified by the Denton Central Appraisal District (the "Appraisal District" or "DCAD"). Includes \$97,880 of uncertified value. This represents 80% of the uncertified value currently under review and is the estimated minimum amount that will ultimately be certified by the Appraisal District. See "TAXING PROCEDURES."

(b) See "DISTRICT DEBT - Estimated Overlapping Debt."

(c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund. The Debt Service Fund has two components: the Utility System Debt Service Fund and the Road Debt Service Fund. Accrued interest from December 1, 2018, to the date of delivery thereof and six (6) months of capitalized interest on the Bonds will be deposited to the Road Debt Service Fund upon closing of the Bonds. Any funds in the Utility System Debt Service Fund are pledged only to pay the debt service on the Outstanding Utility Bonds and are not pledged to the Bonds or the Outstanding Road Bonds.

(d) See "TAX DATA - Tax Rate Distribution."

(e) See "DISTRICT DEBT -Debt Service Requirements."

OFFICIAL STATEMENT
relating to
\$3,235,000

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
(A Political Subdivision of the State of Texas Located in Denton County, Texas)

UNLIMITED TAX ROAD BONDS, SERIES 2018

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Denton County Fresh Water Supply District No. 11-B (the "District"), of its \$3,235,000 Unlimited Tax Road Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to the order authorizing the Bonds (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds; general laws of the State of Texas, particularly Chapters 49, 51, and for certain purposes, 53, Texas Water Code, as amended; Article III, Section 52 of the Texas Constitution; and an election held by the District on May 12, 2007.

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

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

THE BONDS

General

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

The Bonds are dated as of December 1, 2018, and will mature on September 1 of the years and in principal amounts, and bear interest from December 1, 2018, at the rates per annum set forth on the inside cover of this Official Statement. Interest on the Bonds will be payable on March 1, 2019 (three months interest), and semiannually thereafter on each September 1 and March 1 until maturity or redemption. Interest calculations are based upon a thirty (30) day month and a three hundred sixty (360) day year.

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

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

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

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee’s name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

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

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

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

Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or The Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, The Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or The Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Registration and Transfer

The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully registered bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "THE BONDS – Book-Entry-Only System." So long as any Bonds remain outstanding, the District will maintain at least one Paying Agent/Registrar in the State of Texas for the purpose of maintaining the bond register (the "Register") on behalf of the District.

Replacement of Paying Agent/Registrar

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

Mutilated, Lost, Stolen or Destroyed Bonds

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

Authority for Issuance

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

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized But Unissued</u>
May 12, 2007	Water, Sewer, and Drainage	\$25,600,000	\$ 5,390,000	\$20,210,000
May 12, 2007	Road	\$29,500,000	\$11,485,000 (a)	\$18,015,000
May 12, 2007	Refunding	\$55,100,000	\$ -0-	\$55,100,000

(a) Includes the Bonds.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order; Article III, Section 52 of the Texas Constitution, Chapters 49, 51, and for certain purposes, 53 of the Texas Water Code, as amended; and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

Source of Payment

The Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount levied against taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. See "TAXING PROCEDURES." The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this OFFICIAL STATEMENT with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of Denton County, the State of Texas, the Town of Little Elm or any other political subdivision or entity other than the District.

Funds

The Bond Order creates a Series 2018 Road Capital Projects Fund to be held as part of the Capital Projects Fund for the Outstanding Road Bonds (the "Construction Fund") and a Series 2018 Road Debt Service Fund (the "Series 2018 Road Debt Service Fund") to be held as part of the Road Debt Service Fund for the Outstanding Road Bonds (the "Road Debt Service Fund"). Accrued interest and six (6) months of capitalized interest on the Bonds will be deposited from the proceeds of the Bonds into the Series 2018 Road Debt Service Fund. All remaining proceeds of the Bonds will be deposited in the Construction Fund. The Road Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds (the "Registered Owners") is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds. Amounts on deposit in the Road Debt Service Fund may also be used to pay the fees and

expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds.

Redemption Provisions

- Optional Redemption -

Bonds maturing on September 1, 2024, and thereafter are subject to redemption prior to maturity at the option of the District, in whole or in part, on September 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If fewer than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If fewer than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such method of random selection as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

- Mandatory Redemption -

The Bonds that mature on September 1 of the years 2031, 2035, 2037, 2039 and 2043 are term bonds (the "Term Bonds") and shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), on September 1 in each of the years and in the principal amounts set forth in the following schedule:

\$255,000 Term Bonds Maturing on September 1, 2031

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2030	\$125,000
September 1, 2031 (maturity)	\$130,000

\$270,000 Term Bonds Maturing on September 1, 2035

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2034	\$135,000
September 1, 2035 (maturity)	\$135,000

\$275,000 Term Bonds Maturing on September 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2036	\$140,000
September 1, 2037 (maturity)	\$135,000

\$315,000 Term Bonds Maturing on September 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2038	\$155,000
September 1, 2039 (maturity)	\$160,000

\$700,000 Term Bonds Maturing on September 1, 2043

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2040	\$165,000
September 1, 2041	\$170,000
September 1, 2042	\$180,000
September 1, 2043 (maturity)	\$185,000

The principal amount of Term Bonds of a maturity required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the direction of the District, by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Series 2018 Road Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Outstanding Bonds

The Bonds are the District's fourth series of bonds issued for the purpose of financing a road system (the "Road System"). The following bonds have previously been issued for the purpose of financing the Road System: \$2,675,000 Unlimited Tax Bonds, Series 2011; \$2,200,000 Unlimited Tax Road Bonds, Series 2014; and \$3,375,000 Unlimited Tax Road Bonds, Series 2015, of which \$7,525,000 in aggregate principal remains outstanding as of November 1, 2018 (the "Outstanding Road Bonds"). The District has also issued two series of bonds for the purpose of financing water, wastewater and drainage facilities (the "Utility System") to serve the District: \$2,020,000 Unlimited Tax Bonds, Series 2014 and \$3,370,000 Unlimited Tax Bonds, Series 2016, of which \$5,035,000 in aggregate principal remains outstanding as of November 1, 2018 (the "Outstanding Utility Bonds"). The Outstanding Road Bonds and Outstanding Utility Bonds are collectively referred to herein as the "Outstanding Bonds."

Annexation

Under existing Texas law, because the District lies wholly within the extraterritorial jurisdiction of the Town of Little Elm (the "Town"), the District may be annexed for full purposes by the Town without the District's consent, subject to compliance by the Town with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Under legislation effective December 1, 2017 ("Senate Bill 6"), the District may be annexed and dissolved by the Town only if (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the land owners, consenting to annexation. If the District is annexed, the Town must assume the District's assets and obligations (including the Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the Town is a policy-making matter within the discretion of the Mayor and Town Council of the Town, subject to Senate Bill 6 and therefore, the District makes no representation that the Town will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the Town to make debt service payments should the annexation occur.

A Development Agreement was executed among the Town and the owners of certain land (the "DA Land") within the District and other conservation and reclamation districts within the Paloma Creek development (the District and such other districts, collectively, the "Paloma Creek Districts"). Such landowner parties include, among others, Denton 380 and PRA 2003 (as defined herein). Among other terms, such agreement effectively places a 15-year moratorium on full-purpose annexation of the Paloma Creek Districts by the Town for 15 years commencing in 2007, unless extended by mutual agreement of the parties. Such moratorium may be lifted prior to the expiration of the 15-year term, however, in the event that both of the following conditions are satisfied: (i) all water, sewer, drainage and road infrastructure to serve the DA Land at full development has been completed and (ii) the appropriate developers have been reimbursed for payment of the costs of such infrastructure.

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide by mutual agreement for the consolidation of its assets, such as cash and the Utility System, with the water and wastewater system of districts with which it is consolidating as well as its liabilities (which could include the Bonds). No representation is made concerning the likelihood of consolidation.

Issuance of Additional Debt

The District intends to issue additional bonds. Any bonds issued by the District must be approved by the Attorney General of Texas, and the bonds issued to finance the acquisition and construction of water, wastewater and/or drainage facilities must be approved by the TCEQ. The District's voters have authorized the issuance of \$29,500,000 principal amount of unlimited tax bonds for road purposes, \$25,600,000 principal amount of unlimited tax bonds for water, wastewater and drainage purposes and \$55,100,000 principal amount of unlimited tax bonds for refunding purposes, and could authorize additional amounts.

Following the issuance of the Bonds, the District will have \$18,015,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of constructing a road system to serve the District; \$20,210,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of constructing and/or acquiring water, wastewater and drainage facilities to serve the District; and \$55,100,000 in principal amount of authorized but unissued unlimited tax refunding bonds for purposes of refunding outstanding bonds of the District. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount of bonds ultimately issued by the District. Except with respect to the issuance of bonds for road purposes, the District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. The total amount of bonds and other obligations of the District issued for road purposes may not exceed one-fourth of the certified assessed valuation of the real property in the District. 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 District's Engineer, the remaining \$18,015,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of constructing a road system to serve the District 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 District's Engineer, the remaining \$20,210,000 principal amount of authorized but unissued unlimited tax bonds for water, wastewater and drainage facilities will be sufficient to fully finance such facilities to serve the remaining undeveloped but developable land within the District.

Following the issuance of the Bonds, the District will still owe the Developers approximately \$3,500,000 for the reimbursable expenditures advanced to develop land, including roads within the District and capacity payments to Upper Trinity on behalf of the District. See "THE SYSTEM" and "THE DISTRICT – Status of Development."

The District is in the process of preparing a bond application for the issuance of approximately \$3,875,000 of unlimited tax bonds to finance Utility System improvements within the District. Such bonds are anticipated to be sold in the third quarter of 2019.

Remedies in the Event of Default

Texas law and the Bond Order provide that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Debt Service Fund or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board of Directors of the District to

observe and perform any covenant, obligation or condition prescribed by the Bond Order. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. Further, certain traditional legal remedies also may not be available. Even if a Registered Owner could obtain a judgment against the District for a default in the payment of principal or interest such judgment could not be satisfied by execution against any property of the District. See "INVESTMENT CONSIDERATIONS – Registered Owners Remedies" and "- Bankruptcy Limitations of Registered Owners' Rights."

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 Order provides for the defeasance of the Bonds when the payment of the principal of the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities (hereinafter defined), maturing as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar for the Bonds. The Bond Order provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for funding of an escrow to defease the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for funding of an escrow to defease the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The

District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

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

Use and Distribution of Bond Proceeds

A portion of the proceeds from the sale of the Bonds will be used to pay the Road System construction costs shown below, including related engineering and testing costs. Additionally, proceeds from the Bonds will be used to pay six (6) months of capitalized interest, developer interest and certain costs of issuance of the Bonds.

	Amount
<u>CONSTRUCTION COSTS</u>	
1. Northlake Estates, Phase 1 – Grading	\$ 416,183
2. Northlake Estates, Phase 1 – Paving and Related Drainage	1,745,338
3. Land Acquisition	301,853
4. Engineering (Items 1-2)	273,251
TOTAL CONSTRUCTION COSTS	<u>\$ 2,736,625</u>
<u>NON-CONSTRUCTION COSTS</u>	
1. Legal Fees	\$ 80,875
2. Financial Agent Fees	64,700
3. Interest	
a. Developer Interest	145,439
b. Capitalized Interest (6 months)	66,531
4. Bond Discount	97,050
5. Bond Issuance Expenses	38,250
6. Attorney General Fee	3,235
7. Contingency (a)	2,295
TOTAL NON CONSTRUCTION COSTS	<u>\$ 498,375</u>
TOTAL BOND ISSUE REQUIREMENT	<u>\$ 3,235,000</u>

In the instance that estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for roads or improvements in aid thereof. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

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

**DISTRICT FINANCIAL DATA
(UNAUDITED)**

General

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

2018 Taxable Assessed Valuation.....	\$ 180,353,311 (a)
(100% of taxable value as of January 1, 2018)	
See "TAX DATA" and "TAXING PROCEDURES."	
Direct Debt:	
The Outstanding Bonds (as of November 1, 2018).....	\$ 12,560,000
The Bonds	<u>3,235,000</u>
Total	\$ 15,795,000
Estimated Overlapping Debt.....	<u>\$ 12,657,031 (b)</u>
Total Direct and Estimated Overlapping Debt	<u>\$ 28,452,031</u>
Utility System Debt Service Fund Balance (as of November 13, 2018).....	\$ 367,810 (c)
Road Debt Service Fund Balance (as of November 13, 2018).....	\$ 352,896 (c)
General Operating Fund Balance (as of November 13, 2018).....	\$ 1,356,780
Utility System Capital Projects Fund Balance (as of November 13, 2018).....	\$ 331,874
Road Capital Projects Fund Balance (as of November 13, 2018).....	\$ 202,742
2018 Tax Rate	
Utility System Debt Service.....	\$0.180
Road Debt Service.....	0.310
Maintenance & Operation	<u>0.410</u>
Total.....	<u>\$0.900 (d)</u>
Average Annual Debt Service Requirements	
on the Bonds and Outstanding Bonds (2019-2040, high years).....	\$ 1,053,316 (e)
Maximum Annual Debt Service Requirements	
On the Bonds and Outstanding Bonds (2038).....	\$ 1,131,288 (e)
Direct Debt Ratio:	
As a percentage of 2018 Assessed Taxable Valuation	8.76 %
Direct and Estimated Overlapping Debt Ratio:	
As a percentage of 2018 Assessed Taxable Valuation	15.78 %

(a) As certified by the Denton Central Appraisal District (the "Appraisal District" or "DCAD"). Includes \$97,880 of uncertified value. This represents 80% of the uncertified value currently under review and is the estimated minimum amount that will ultimately be certified by the Appraisal District. See "TAXING PROCEDURES."

(b) See "DISTRICT DEBT - Estimated Overlapping Debt."

(c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund. The Debt Service Fund has two components: the Utility System Debt Service Fund and the Road Debt Service Fund. Accrued interest from December 1, 2018, to the date of delivery thereof and six (6) months of capitalized interest on the Bonds will be deposited to the Road Debt Service Fund upon closing of the Bonds. Any funds in the Utility System Debt Service Fund are pledged only to pay the debt service on the Outstanding Utility Bonds and are not pledged to the Bonds or the Outstanding Road Bonds.

(d) See "TAX DATA - Tax Rate Distribution."

(e) See "DISTRICT DEBT -Debt Service Requirements."

Estimated Overlapping Debt Statement

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

Taxing Jurisdiction	Outstanding Debt as of October 31, 2018	Percent	Overlapping Amount
Denton County	\$ 612,630,000	0.18%	\$ 1,126,978
Denton ISD	1,167,039,104	0.99%	<u>11,530,053</u>
TOTAL ESTIMATED OVERLAPPING DEBT			\$ 12,657,031
Direct Debt			<u>15,795,000 (a)</u>
TOTAL DIRECT & ESTIMATED OVERLAPPING DEBT			<u>\$ 28,452,031</u>

(a) Includes the Bonds.

Debt Ratios

	2018 Taxable Assessed Valuation
Direct Debt (a)	8.76%
Total Direct and Estimated Overlapping Debt (a)	15.78%

(a) Includes the Bonds.

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Debt Service Requirements

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

Year	Outstanding Debt Service	Plus: The Bonds		Total New Debt Service	Total Debt Service
		Principal	Interest		
2019	\$ 827,130	\$ -	\$ 99,797	\$ 99,797	\$ 926,927
2020	832,945	110,000	133,063	243,063	1,076,008
2021	837,805	115,000	127,013	242,013	1,079,818
2022	846,703	110,000	120,688	230,688	1,077,391
2023	849,448	115,000	114,638	229,638	1,079,086
2024	861,110	115,000	108,313	223,313	1,084,423
2025	861,266	115,000	102,563	217,563	1,078,829
2026	865,346	125,000	99,113	224,113	1,089,459
2027	878,616	120,000	95,363	215,363	1,093,979
2028	890,271	115,000	91,463	206,463	1,096,734
2029	890,553	120,000	87,438	207,438	1,097,991
2030	894,365	125,000	83,238	208,238	1,102,603
2031	897,141	130,000	78,550	208,550	1,105,691
2032	902,979	130,000	73,675	203,675	1,106,654
2033	907,594	130,000	68,475	198,475	1,106,069
2034	910,679	135,000	63,275	198,275	1,108,954
2035	916,566	135,000	57,875	192,875	1,109,441
2036	915,823	140,000	52,475	192,475	1,108,298
2037	928,660	135,000	46,875	181,875	1,110,535
2038	934,813	155,000	41,475	196,475	1,131,288
2039	584,300	160,000	35,275	195,275	779,575
2040	429,331	165,000	28,875	193,875	623,206
2041	-	170,000	22,069	192,069	192,069
2042	-	180,000	15,056	195,056	195,056
2043	-	185,000	7,631	192,631	192,631
Totals	\$ 18,663,444	\$ 3,235,000	\$ 1,854,271	\$ 5,089,271	\$ 23,752,715

Average Annual Requirements – (2019-2040, high years)..... \$1,053,316
 Maximum Annual Requirement – (2038) \$1,131,288

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TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") establishes for each county in Texas a single appraisal district with responsibility for recording and appraising property for all taxing units within the county and a single appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The appraisal of property within the District is the responsibility of the Denton Central Appraisal District. The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court.

Although the District has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Tax Code, the District does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of future reappraisals will be utilized by the Denton Central Appraisal District or whether reappraisals will be conducted on a zone or countywide basis.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real and tangible personal property and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Denton Central Appraisal District to include on the tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; certain property owned by charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind powered energy devices; inventory and warehouse goods in transit; and most individually-owned automobiles and travel trailers. In addition, the District, either by action of its Board of Directors or through a process of petition and referendum initiated by its residents, may grant exemptions for residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District.

Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent allowed by law. The disabled veteran exemption ranges between \$5,000 and \$12,000, depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption of the full value of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of

the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, effective January 1, 2018, (ii) a first responder as defined under Texas law, 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. See "TAX DATE."

The Board may also exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt and the cessation of the levy would impair the obligation of the contract by which the debt was created, then the Board may continue to levy and collect taxes against the exemption value of the homesteads until the debt is discharged. To date, the Board has not acted to exempt any percentage of the market value of residential homesteads from ad valorem taxation, but no representation can be made that the Board will not determine to grant such exemption in the future.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option.

A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or /imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local Taxing Units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken no official action to allow taxation of all such goods-in-transit personal property.

Denton County may designate all or part of the area within the District as a reinvestment zone. Thereafter, either Denton County or the District, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdiction. None of the area within the District has been designated as a reinvestment zone to date, and the District has not approved any such tax abatement agreements.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year, except for certain categories of land designated for agricultural use, open space or timberland as described below. See "Agricultural, Open Space, Timberland and Inventory Deferment." Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements on the property. Once an appraisal roll is prepared and approved by the appraisal review board, it is used by the District in establishing its tax rate.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the appraisal review board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units, such as the District, are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal rolls or the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

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

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. If the landowner of qualified open space land is a member of the U.S. armed forces, subject to certain conditions, the appraisal of land as qualified open space land does not change while the landowner is deployed or stationed outside Texas. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) to five (5) years prior to the loss of the designation for agricultural, timberland or open space land.

Notice and Hearing Procedures

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes, unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the

preceding January 1 and the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations.

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year or on the first day of the calendar month next following the expiration of twenty-one (21) days after mailing of the tax bills, whichever occurs later. A delinquent tax incurs an initial penalty of six percent (6%) of the amount to the tax and accrues an additional penalty of one percent (1%) per month up to July 1, at which time the total penalty becomes twelve percent (12%). In addition, delinquent taxes accrue interest at one percent (1%) per month. If the tax is not paid by July 1, an additional penalty of up to twenty percent (20%) of the total amount of taxes, penalties and interest then due may, under certain circumstances, be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payments, partial payments of taxes and the postponement of the delinquency date of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) a person under a disability for the purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) a disabled veteran under Texas law is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in equal installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to the delinquent taxes within the preceding 24 months.

Collection of Delinquent Taxes

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has 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. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit to foreclose its lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to certain restrictions. 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. In the absence of such federal law, the District's tax lien takes priority over a tax lien of the United States. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, the foreclosure sale price attributable to market conditions, the taxpayer's right to redeem the property within six (6) months of foreclosure (2 years in the case of residential or agricultural property), or by bankruptcy proceedings which restrain the collection of a taxpayer's debts or modify such debts. 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.

TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds, the Bonds and any future tax-supported bonds which may be issued from time to time as authorized. Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, in an unlimited amount, for operation and maintenance purposes. The Board has levied a 2018 tax rate for Road System debt service of \$0.310 per \$100 of assessed valuation, a Utility System debt service tax rate

of \$0.180 per \$100 of assessed valuation and a tax rate for maintenance of \$0.410 per \$100 of assessed valuation, for a total 2018 tax rate of \$0.900 per \$100 of assessed valuation.

Tax Rate Limitation

Road Debt Service:	Unlimited (no legal limit as to rate or amount).
System Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	Unlimited (no legal limit as to rate or amount).

Historical Tax Collections

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

Tax Year	Certified Assessed Valuation	Tax Rate/ \$100 (a)	Adjusted Levy	% of Current Collections	Fiscal Year Ending 9/30	% of Total Collections
2012	\$ 22,280,372	\$ 1.000	\$ 222,804	96.31	2013	100.00
2013	39,220,324	1.000	392,203	99.88	2014	100.00
2014	63,426,836	1.000	634,268	99.88	2015	100.00
2015	110,079,127	1.000	1,100,791	99.86	2016	100.00
2016	141,544,475	1.000	1,415,445	99.66	2017	99.95
2017	165,137,948	0.950	1,568,811	99.07	2018	98.18
2018	180,255,431	0.900	1,622,299	(b)	2019	(b)

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

(b) In process of collection.

Tax Rate Distribution

	2018	2017	2016	2015	2014
Utility System Debt Service	\$0.180	\$0.210	\$0.240	\$0.120	\$0.115
Road Debt Service	0.310	0.330	0.400	0.490	0.375
Maintenance	<u>0.410</u>	<u>0.410</u>	<u>0.360</u>	<u>0.390</u>	<u>0.470</u>
	<u>\$0.900</u>	<u>\$0.950</u>	<u>\$1.000</u>	<u>\$1.000</u>	<u>\$1.000</u>

Analysis of Tax Base

The following table illustrates the District’s total taxable assessed value for the 2014 – 2018 tax years by type of property.

Type of Property	2018 Assessed Valuation (a)	2017 Assessed Valuation	2016 Assessed Valuation	2015 Assessed Valuation	2014 Assessed Valuation
Land	\$ 51,924,798	\$ 39,826,731	\$ 33,856,278	\$ 32,602,289	\$ 26,640,582
Improvements	129,614,823	126,485,374	108,618,639	78,137,099	36,735,324
Personal Property	1,332,104	1,278,808	1,004,413	633,686	680,575
Exemption	<u>(2,616,294)</u>	<u>(2,452,965)</u>	<u>(1,934,855)</u>	<u>(1,293,947)</u>	<u>(629,645)</u>
Total	<u>\$180,255,431</u>	<u>\$165,137,948</u>	<u>\$141,544,475</u>	<u>\$110,079,127</u>	<u>\$63,426,836</u>

(a) Does not include \$97,880 of uncertified value. This represents 80% of the uncertified value currently under review and is the estimated minimum amount that will ultimately be certified by the Appraisal District.

Exemptions and Special Valuations

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. For the 2018 tax year, the District has granted an exemption of \$10,000 of the appraised value on residential homesteads of individuals who are 65 years of age or older or are under certain disabilities. According to the Appraisal District, as of January 1, 2018, (i) no land within the District was designated for agricultural use, open space or timberland, and (ii) 170 lots, totaling \$6,495,784 in market value, have been designated as inventory.

Principal Taxpayers

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

Taxpayer	Type of Property	Assessed Valuation 2018 Tax Roll
CADG Property Holdings III LLC (a)	Land & Improvements	\$ 6,802,538
Lennar Homes of Texas (b)	Land & Improvements	1,652,602
Homeowner	Land & Improvements	1,461,000
Coserv Electric Co-op	Land & Improvements	899,850
Homeowner	Land & Improvements	788,000
Homeowner	Land & Improvements	748,155
Homeowner	Land & Improvements	735,984
Homeowner	Land & Improvements	576,788
Homeowner	Land & Improvements	563,000
Zhao Wang Properties Series D LLC	Land & Improvements	<u>549,000</u>
Total		<u>\$14,776,917</u>
Percentage of 2018 Assessed Valuation		<u>8.20 %</u>

(a) See "THE DEVELOPERS."

(b) See "HOMEBUILDERS WITHIN THE DISTRICT."

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2018 Taxable Assessed Valuation (\$180,353,311). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2019-2040, high years).....	\$1,053,316
Tax Rate of \$0.62 on the 2018 Taxable Assessed Valuation at 95% collection produces	\$1,062,281
Maximum Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2038)	\$1,131,288
Tax Rate of \$0.67 on the 2018 Taxable Assessed Valuation at 95% collection produces	\$1,147,949

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a compilation of all 2018 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

<u>Taxing Jurisdiction</u>	<u>2018 Tax Rate/ Per \$100 of A.V.</u>
The District	\$0.900000
Denton ISD	1.540000
Denton County	<u>0.225574</u>
Estimated Total Tax Rate	<u>\$2.665574</u>

THE DISTRICT

General

The District is a conservation and reclamation district and political subdivision of the State of Texas and operates pursuant to Article XVI, Section 59 and Article III, Section 52 of the Constitution of the State of Texas, and Chapters 49, 51 and, for certain purposes, 53, Texas Water Code, as amended.

Denton County Fresh Water Supply District No. 11 ("District 11") was created by the Denton County Commissioner's Court on December 12, 2000, as a fresh water supply district pursuant to Chapter 53, Texas Water Code, as amended. On January 20, 2001, pursuant to an election within such district, District 11 was authorized to assume sanitary sewer and road district powers. On February 20, 2001, District 11 converted to a water control and improvement district. At an election held on May 3, 2003, voters approved the division of District 11 into District 11-A and the initial Denton County Fresh Water Supply District No. 11-B ("Original District 11-B"). At an election held on November 8, 2005, voters approved the division of Original District 11-B into the District and District 11-C. Pursuant to such voter approved divisions, the District succeeded to the rights and powers of its predecessor districts, including sanitary sewer powers and road district powers under Chapter 257, Texas Transportation Code.

The creation of District 11 and certain acts and proceedings of District 11 taken prior to June 17, 2001, were validated and confirmed in all respects by Senate Bill No. 1444, Acts of the 77th Legislature, Regular Session, 2001. Accordingly, the District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water; and the construction, operation and maintenance of macadamized, graveled or paved roads and turnpikes. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, subject to the approval of the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, utilize non-tax revenues to develop and finance parks and recreational facilities.

The District has received approval from the TCEQ to implement a plan (the "Fire Plan") relating to fire-protection services within the District. The Fire Plan has been developed in coordination with several conservation and reclamation districts located near the District and includes a contract (the "Fire-Protection Contract") with the City of Aubrey to staff and operate a fire station located north of the District. The Fire Plan, which was approved by District voters at an election held on November 6, 2007, is funded through a

monthly surcharge added to each customer's water bill and will not be funded with the proceeds of any bonds issued by the District.

Location of the District

The District is located approximately 32 miles northwest of the central downtown business district of the City of Dallas and lies wholly within the extraterritorial jurisdiction of the Town of Little Elm. The District is located within Denton Independent School District ("DISD") and is bordered on the north by Braswell High School and District 11-A, by undeveloped acreage and District 11-C on the east, by Lake Lewisville on the south, and by District 11-A and Denton County Fresh Water Supply District No. 8-A on the west. Access to the District is provided by the Dallas North Tollway to U.S. Highway 380 and west to Navo Road/Villa Paloma Boulevard.

Management of the District

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

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Andrea Lagusis	President	2020
Brook Kailey	Vice President	2022
David McClellan	Secretary	2022
Karen Brown	Assistant Secretary	2020
Kevin Youngblood	Assistant Secretary	2022

The District employs the following companies and individuals to operate its utilities and recreational facilities:

Tax Assessor/Collector – The District's Tax Assessor/Collector is Michelle French, the Denton County Tax Assessor/Collector.

Bookkeeper – The District contracts with Kathi Dye CPA, LLC, for bookkeeping services.

Utility System Operator – The District's operator is Mustang Special Utility District ("MSUD").

Auditor – The District's financial statements for the fiscal year ended February 28, 2018, were audited by McCall Gibson Swedlund Barfoot PLLC, a copy of which is included as APPENDIX A.

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

Bond Counsel – The District has engaged McCall, Parkhurst & Horton L.L.P., Dallas Texas as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

Disclosure Counsel – The District has engaged McCall, Parkhurst & Horton LLP, Houston, Texas, as Disclosure Counsel in connection with the issuance of the Bonds. The legal fees to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

General Counsel – The District has engaged Crawford & Jordan LLP, Houston, Texas, as General Counsel to the District. The fees to be paid to General Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

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

the issuance, sale and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

Status of Development

Development within the District currently consists of Paloma Creek South, Phases 5B, 7A, 7B, 7C, 8A, 8B, 8C, 8D, 9A, and 12 (699 lots on approximately 151 acres) and Northlake Estates Phase 1 (176 lots on approximately 49 acres). As of October 1, 2018, there were approximately 733 completed single-family homes within the District, 19 homes under construction and 123 vacant developed lots available for home construction. The homes being marketed in the District range in size from approximately 1,800 square feet to 4,250 square feet and range in price from approximately \$260,000 to over \$500,000. Approximately 146 acres of developable land within the District have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 25 acres of land are not developable. Recreational amenities for residents within the District include an approximate 2 acre park with a playground. There are also hiking and biking trails throughout Paloma Creek.

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

	Approximate Acreage	Lots	Homes		Vacant Developed Lots
			Completed	Under Construction	
Paloma Creek South, Phase 5B	28.357	151	151	-	-
Paloma Creek South, Phase 7A	8.689	48	48	-	-
Paloma Creek South, Phase 7B	0.884	7	7	-	-
Paloma Creek South, Phase 7C	20.016	105	105	-	-
Paloma Creek South, Phase 8A	15.828	68	68	-	-
Paloma Creek South, Phase 8B	14.907	82	82	-	-
Paloma Creek South, Phase 8C	8.312	45	45	-	-
Paloma Creek South, Phase 8D	14.927	78	78	-	-
Paloma Creek South, Phase 9A	12.146	41	41	-	-
Paloma Creek South, Phase 12	26.997	74	74	-	-
Northlake Estates, Phase 1	<u>49.000</u>	<u>176</u>	<u>34</u>	<u>19</u>	<u>123</u>
Totals	200.063	875	733	19	123
Recreation	2.000				
Remaining Undeveloped but Developable Acres	146.062				
Undevelopable Acreage	24.579				
Total	<u>372.704</u>				

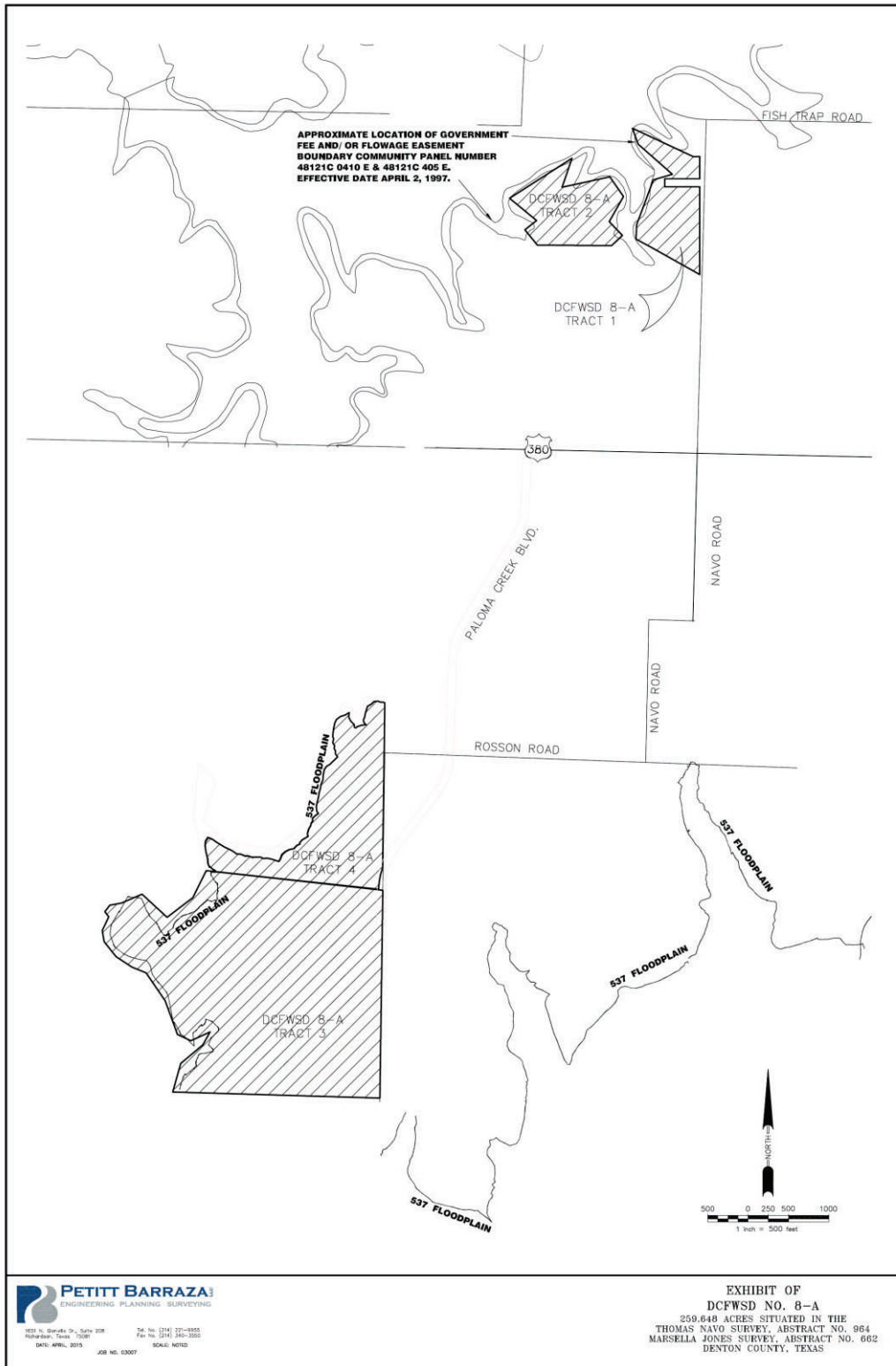
HOMEBUILDERS WITHIN THE DISTRICT

Builders currently building homes within the District include Lennar Homes, Megatel Homes and Oakdale Homes. The homes being marketed in the District range in size from approximately 1,800 square feet to 4,250 square feet and range in price from approximately \$260,000 to over \$500,000.

PALOMA CREEK

The District is part of the 1,400 acre master-planned community of Paloma Creek, consisting of the District and four other utility districts (Denton County Fresh Water Supply District Nos. 8-A, 8-B, 11-A and 11-C). Approximately 5,062 single-family residential lots have been constructed in Paloma Creek, including 875 lots in the District. The District contains the neighborhood area of Paloma Creek Lakeview and part of the neighborhood of Paloma Creek South.

LOCATION MAP



THE DEVELOPERS

The Role of a Developer

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

Prospective Bond purchasers should note that the prior real estate experience of a developer should not be construed as an indication that further development within the District will occur, or construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. Circumstances surrounding development within the District may differ from circumstances surrounding development of other land in several respects, including the existence of different economic conditions, financial arrangements, homebuilders, geographic location, market conditions, and regulatory climate.

None of the Developers (hereinafter defined), nor any affiliate of any such entity, if any, is obligated to pay principal of or interest on the Bonds. Furthermore, none of the Developers has a binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by such entities should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

The Developers

Denton 380, Sandlin Paloma, Pulte, Paloma 4, PRA 2003, Beazer and CADG (as defined hereunder) are collectively referred to herein as the "Developers."

- Denton 380 -

Denton 380 Associates, L.P., a Texas limited partnership ("Denton 380") was formed for the purpose of acquiring and holding for investment and sale tracts of land, including 178 acres of the land in the District. Denton 380 has determined the overall development plan for such 178 acres of land in the District and arranged for the construction of utility trunk lines and the acquisition of water supply and sewage treatment capacity from Upper Trinity. PRA 380 Investors, L.P. ("PRA 380"), a Texas limited partnership, is the general partner and IHP Investment Fund III, L.P. ("IHP"), a California limited partnership, is the limited partner of Denton 380. The general partner of PRA 380 Investors, L.P. is PRA 380, Inc., a Texas corporation. Leon J. Backes is the President of PRA 380, Inc.

Denton 380 has sold all of the land it owned in the District to various entities for development. As part of the consideration for the sale of land by Denton 380, and further in consideration of Denton 380's agreement to advance funds to pay expenses under the Joint Utility Contract and District operating costs, as necessary, each of these other entities has assigned to Denton 380 all or a portion of moneys eligible to be reimbursed to it from the proceeds of District bonds issued to finance water, sewer, drainage and road facilities to serve the land owned by such entities. Denton 380 also has the right to be reimbursed from the proceeds of District bonds for advances made to pay Joint Utility Contract and operating expenses, subject to legal and regulatory limitations (although no such reimbursement for these Joint Utility Contract and operating advances will be paid from the proceeds of the Bonds).

- PRA 2003 No. 3 LP -

PRA 2003 No.3 LP, a Texas limited partnership (“PRA 2003”) acquired approximately 38 acres in the District from Denton 380, including approximately 10 acres that an affiliate of PRA 2003 has developed as Paloma Creek South, Phase 9A (41 lots). The general partner of PRA 2003 No. 3 LP is PRA GP No. 2, Inc., an affiliate of Denton 380. See “TAX DATA—Tax Roll Information—Principal Taxpayers.”

- Sandlin Paloma -

Sandlin Paloma Ltd., a Texas limited partnership and related family entities (“Sandlin Paloma”), acquired approximately 110 acres in the District from Denton 380 on which it developed 283 residential lots as Paloma Creek South Phases 7A, 7B, 7C, 8C and 8D. The general partner of Sandlin Paloma is Sandlin Paloma GP, L.L.C.

-Pulte Homes -

Pulte Homes (“Pulte”) purchased approximately 16 acres from Sandlin Paloma on which it has developed 150 residential lots as Paloma Creek South, Phases 8A and 8B. Pulte Homes is the homebuilder on the remaining lots within these developed sections.

- Paloma Phase 4 Development Corp. -

Paloma Phase 4 Development Corp. (“Paloma 4”), an affiliate of Denton 380, acquired approximately 26 acres in the District from Denton 380 and developed 74 single family lots on such land as Paloma Creek South, Phase 12.

- CADG Property Holdings III, LLC -

CADG Property Holdings III, LLC (“CADG”), an affiliate of Centurion American Development Group, purchased approximately 195 acres of land in the District. CADG has developed approximately 49 acres of such land as Northlake Estates at Paloma Creek, Phase 1 (176 lots). No representation can be made concerning CADG’s plans for future development, if any, of its remaining 146 acres of developable land or sale of its property within the District. See “TAX DATA – Principal Taxpayers.”

- Beazer Homes -

Beazer Homes (“Beazer”) developed 151 lots in the District as Paloma Creek South, Phase 5B. Beazer is no longer an active developer of land within the District.

THE ROAD SYSTEM

Certain of the District’s roads and ancillary improvements (“Road System”) that lie within the District’s boundaries have been funded with the proceeds of the Outstanding Road Bonds or will be funded with the proceeds of the Bonds. Construction of the District’s roads is subject to certain regulation by Denton County. The roads in the District are constructed with reinforced concrete pavement with curbs on cement or lime stabilized subgrade. Remaining streets provide local interior service within the District. The Road System also includes streetlights and franchise utilities (power, phone and cable). Public utilities such as water, wastewater and storm drainage are typically located within street right of ways. The Road System is maintained by the District.

THE UTILITY SYSTEM

Regulation

According to the Engineer, the water distribution and wastewater collection lines constructed by the District (the “Utility System”) have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the Town, Mustang Special Utility District and Denton County. According to the District’s Engineer, the design of all such facilities has been approved by all required governmental agencies and inspected by the TCEQ.

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

Upper Trinity Regional Water District Contracts

Upper Trinity Regional Water District (“Upper Trinity”) was created by the State of Texas to create and operate regional water and wastewater systems in Denton County and surrounding areas. Denton County Fresh Water Supply District No. 11 (“District No. 11”) entered into the Contracts (as defined in “INVESTMENT CONSIDERATIONS—Upper Trinity Regional Water District Obligations”), pursuant to which Upper Trinity pledges to deliver certain water supply and wastewater services as required to serve the needs of the property owners within the District, District 11-A and District 11-C. Pursuant to an Order Declaring Results and Canvassing Election to Divide Denton County Fresh Water Supply District No. 11 into Two New Districts, dated May 6, 2003, the rights and obligations of District 11 under the Contracts were retained by District 11-A. Further pursuant to the Contracts, District 11-A has contracted for 3,000,000 gpd peak flow of treated water supply and 716,000 gpd of wastewater treatment capacity for the benefit of the District, District 11-A and District 11-C. The allocation to District 11-A of 716,000 gpd of wastewater treatment capacity is based on its subscription of 262,000 gpd of capacity in an expansion of Upper Trinity’s Riverbend Wastewater Treatment Plant (the “Riverbend Plant”), which expansion is expected to be complete in 2019. This subscription increases (by such 262,000 gpd) District 11-A’s previous allocation of 454,000 gpd of Riverbend Plant treatment capacity.

The Upper Trinity water and wastewater system is financed by the Upper Trinity through the issuance of bonds payable from and secured by payments made under the Contracts and other similar contracts with other members and customers of Upper Trinity. Denton 380, on behalf of the District, District 11-A and District 11-C, has advanced funds for construction of certain Upper Trinity facilities that will serve the districts. The District has reimbursed Denton 380 for the District’s share of such advances from the proceeds of certain wastewater permit fees and other available funds. Pursuant to the Joint Utility Contract (as defined in “INVESTMENT CONSIDERATIONS—Joint Utility Contract”), the District, District 11-A and District 11-C have established procedures for the acquisition and allocation among the districts of treated water supply and wastewater capacity provided by Upper Trinity under the Contracts and a procedure for the allocation of the costs and expenses arising under the Contracts. To pay its share of such costs and expenses, each district has agreed to fix and collect water and sewer rates and to levy a contract tax, if necessary, to meet its obligations. None of the District, District 11-A or District 11-C has levied a contract tax. All of the Districts are current in their respective payments under the Joint Utility Contract, and the Joint Utility Contract is in full force and effect. See “INVESTMENT CONSIDERATIONS—Joint Utility Contract.”

Description of the System

- Water Supply -

As described above under “Upper Trinity Regional Water District Contracts,” the District’s water supply is obtained from Upper Trinity. Pursuant to the Joint Utility Contract, the District has the contractual right to 1,029,000 gpd of treated water, which is sufficient to serve at least 1,189 single-family residential homes. For treated water, the District is required to pay its pro-rata share of a current annual Demand Charge of \$428,200 per million gpd subscribed capacity and a current monthly Volume Charge (as defined in the Contracts) of \$1.19 per 1,000 gallons used. As of October 31, 2018, the District was serving approximately 743 active residential connections.

- Wastewater Treatment -

The District’s wastewater is treated by the Riverbend Plant owned and operated by Upper Trinity, which currently has 2,000,000 gallons per day (“gpd”) of treatment capacity constructed and operational. See “Upper Trinity Regional Water District Contracts” above. Pursuant to the Joint Utility Contract, the District currently has the right to use 76,000 gpd of wastewater treatment capacity. The District also has contracted with Denton County Fresh Water Supply District No. 8-A (“District 8-A”) for the temporary allocation of an additional 70,000 gpd of wastewater treatment capacity, giving the District a current total allocation of 146,000 gpd of wastewater treatment capacity, which is sufficient to serve 789 single family connections based on the wastewater “flow factor” presented in the District’s application to TCEQ for approval of issuance of the District’s most recent series of Utility Bonds, which application was approved. See “INVESTMENT CONSIDERATIONS—Joint Utility Contract.” This temporary allocation from District 8-A expires at such time as the District acquires a permanent, exclusive right to use an additional 70,000 gpd of wastewater treatment capacity under the Joint Utility Contract or otherwise. Under the Joint Utility Contract, the District will acquire a permanent, exclusive right to use an additional 169,000 gallons per day of wastewater treatment capacity

upon completion of the expansion of the Riverbend Plant as described above under "Upper Trinity Regional Water District Contracts." At such time, the District's temporary allocation of capacity from District 8-A will expire and the District will be allocated a total of 245,000 gallons per day of wastewater treatment capacity, which will be sufficient to serve 1,324 single-family connections based on the District's approved flow factor. For wastewater treatment, the District is required to pay its pro-rata share of an annual Fixed Operations and Maintenance Charge of \$521,350 per million gpd subscribed capacity, an annual Joint Facilities Capital Charge of \$56,550 and a current monthly Volume Charge of \$1.34 per 1,000 gallons treated. Collection of wastewater by Upper Trinity is accomplished by underground piping. As of October 31, 2018, the District was serving approximately 743 active residential connections.

- Drainage -

The District generally drains to the south to tributaries of Lewisville Lake located on the Elm Fork of the Trinity River. According to the District's engineer, none of the developable land within the District is within the 100-year flood plain.

Historical Operations of the District

The following is a summary of the District's Operating Fund activity for the last 5 years. The figures for the fiscal years ending February 28, 2014, through February 28, 2018, were obtained from the District's annual financial reports, reference to which is hereby made. The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

The Bonds are payable from the levy of an annual ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the District operations are not pledged to the payment of the Bonds but are available for any lawful purposes, including payment of debt service of the Bonds, at the discretion of and upon action by the Board. It is not anticipated that any significant net revenues will be available for payment of debt on the Bonds.

	Fiscal Year Ended February 28				
	2018	2017	2016	2015	2014
REVENUES:					
Property Taxes	\$ 696,344	\$ 512,037	\$ 433,050	\$ 295,090	\$ 247,239
Water Service	448,462	415,211	417,882	361,793	181,729
Wastewater Service	384,918	374,639	350,830	215,291	138,031
Fire Protection Service	69,290	67,441	61,005	43,031	25,974
Franchise Fees	45,974	42,745	38,280	26,110	-
Penalty and Interest	15,188	8,147	19,623	14,166	10,165
Permit Fees	11,000	23,000	142,000	186,500	156,500
Miscellaneous Revenues	<u>28,452</u>	<u>18,395</u>	<u>22,993</u>	<u>22,519</u>	<u>20,583</u>
TOTAL REVENUES	\$ 1,699,628	\$ 1,461,615	\$ 1,485,663	\$ 1,164,500	\$ 780,221
EXPENDITURES:					
Professional Fees	\$ 102,024	\$ 90,060	\$ 118,907	\$ 90,772	\$ 93,085
Contracted Services	407,129	394,240	333,119	225,268	135,991
Purchased Water Service	532,466	557,337	531,866	495,814	462,818
Purchased Wastewater Service	172,691	165,066	162,039	112,879	86,214
Repairs and Maintenance	11,285	9,586	12,752	11,889	11,046
Other	<u>27,726</u>	<u>29,845</u>	<u>55,225</u>	<u>89,726</u>	<u>65,509</u>
TOTAL EXPENDITURES	\$ 1,253,321	\$ 1,246,134	\$ 1,213,908	\$ 1,026,348	\$ 854,663
Excess (Deficiency) of Revenues Over Expenditures	\$ 446,307	\$ 215,481	\$ 271,755	\$ 138,152	\$ (74,442)
OTHER FINANCING SOURCES (USES)					
Developer Advances	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 384,553
Transfer In	\$ -0-	\$ 21,221	\$ -0-	\$ -0-	\$ -0-
NET CHANGE IN FUND BALANCE	\$ 446,307	\$ 236,702	\$ 271,755	\$ 138,152	\$ 310,111
BEGINNING FUND BALANCE (DEFICIT)	<u>\$ 853,067</u>	<u>\$ 616,365</u>	<u>\$ 344,610</u>	<u>\$ 206,458</u>	<u>\$ (103,653)</u>
ENDING FUND BALANCE (DEFICIT)	<u>\$ 1,299,374</u>	<u>\$ 853,067</u>	<u>\$ 616,365</u>	<u>\$ 344,610</u>	<u>\$ 206,458</u>

INVESTMENT CONSIDERATIONS

General

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

Economic Factors Affecting Taxable Values and Tax Payment

The rate of development within the District is directly related to the vitality of the single-family housing market in the Dallas and Denton metropolitan areas. New single-family residential construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of single-family residential construction would restrict the growth of property values in the District. Although the construction of 19 single-family homes is under way as of October 1, 2018, the District cannot predict the pace or magnitude of any future development in the District. See “THE DISTRICT – Status of Development.”

Principal Landowners’ and Developers’ Obligations to the District: There is no commitment by or legal requirement of the Developers (as defined herein), or any other landowner, to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any home builder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any land owner’s right to sell its land. Therefore, the District can make no representation about the profitability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and could result in higher tax rates. See “THE DISTRICT – Status of Development,” “THE DEVELOPERS,” and “HOMEBUILDERS WITHIN THE DISTRICT.”

Competition: The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. In addition to competition for new single-family home sales from other developments, there are numerous previously-owned single-family homes in more established commercial centers and neighborhoods closer to Dallas that are for sale. Such existing developments could represent additional competition for new development proposed to be constructed within the District. The competitive position of the Developers or the principal landowners in the sale of land, and the sale or leasing of residences is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developers will be implemented or, if implemented, will be successful.

Maximum Impact on District Tax Rate: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2018 Taxable Assessed Valuation of property within the District (see “TAX DATA”) is \$180,353,311. After issuance of the Bonds, the maximum annual debt service requirement for the Outstanding Bonds and the Bonds is \$1,131,288 (2038) and the average annual debt service requirement for the Outstanding Bonds and the Bonds is \$1,053,316 (2019 through 2040, inclusive, the high years). See “DISTRICT DEBT - Debt Service Requirements.” Assuming no increase to nor decrease from the 2018 Taxable Assessed Valuation, tax rates of \$0.67 and \$0.62 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively, on the Outstanding Bonds and the Bonds.

The District levied a tax rate in 2018 of \$0.31 per \$100 of assessed valuation for Road System debt service, \$0.18 per \$100 of assessed valuation for Utility System debt service and \$0.41 per \$100 of assessed valuation for maintenance and operations.

Upper Trinity Regional Water District Obligations

Upper Trinity Regional Water District (“Upper Trinity”) was created by the State of Texas to construct and operate regional water and wastewater systems in Denton County and surrounding areas. Denton County Fresh Water Supply District No. 11 (“District 11”) entered into two separate contracts (together, the “Contracts”) with Upper Trinity as follows: “Upper Trinity Regional Water District Regional Treated Water System Participating Customer Contract With Denton County Fresh Water Supply District No. 11” (“the Water Contract”), and “Upper Trinity Regional Water District Northeast Regional Water Reclamation System Participating Customer Contract With Denton County Fresh Water District No. 11” (the “Wastewater Contract”), each dated August 29, 2001, and subsequently amended. Pursuant to an Order Declaring Results and Canvassing Election to Divide Denton County Fresh Water Supply District No. 11 into Two New Districts, dated May 6, 2003, the rights and obligations of District 11 under the Contracts were retained by Denton County Fresh Water Supply District No. 11-A (“District 11-A”). The District has entered into a Joint Utility Contract (hereinafter defined) for water supply and wastewater treatment with District 11-A and Denton County Fresh Water Supply District No. 11-C (“District 11-C”). See “Joint Utility Contract” below and “THE SYSTEM.”

Pursuant to the Contracts, Upper Trinity pledges to deliver certain water supply and wastewater treatment services as required to serve the needs of the property owners within the District, District 11-A and District 11-C. The Upper Trinity water and wastewater system is financed by Upper Trinity through the issuance of bonds payable from and secured by payments made under the Contracts and other similar contracts with other members and customers of Upper Trinity. Pursuant to the Contracts, Denton 380 has advanced funds to pay for construction of certain Upper Trinity facilities that serve the District, District 11-A and District 11-C, including approximately \$2,685,000 for construction of the Riverbend Wastewater Treatment Plant and the sanitary sewer line along Paloma Creek Boulevard.

The District has reimbursed Denton 380 for the District’s share of such advances from the proceeds of certain wastewater permit fees and other available funds.

The District has agreed to fix and collect water and sewer rates and to levy a contract tax, if funds are not otherwise available from the water and wastewater system revenues, sufficient to meet its payment obligation under the Joint Utility Contract. The levy and assessment of a contract tax is subject to the approval of the TCEQ. The District has not applied to the TCEQ for approval of a contract tax and accordingly has not levied a contract tax to date.

Joint Utility Contract

The District, District 11-A and District 11-C were created and organized to provide certain facilities and services, including water and sanitary sewer facilities and services to the areas within their respective boundaries. Pursuant to a Merged, Amended and Restated Joint Utility Contract, dated as of March 1, 2011 (as amended, the “Joint Utility Contract”), among District 11-A, District 11-C and the District, District 11-A has assumed responsibility of coordinating and securing provision of such services and facilities on behalf of the District, District 11-A and District 11-C. In this regard, District 11-A has entered into or otherwise assumed the Contracts securing water and wastewater service and capacities from Upper Trinity. Pursuant to the Joint Utility Contract, the District has been allocated water supply and wastewater treatment capacity as set forth in “THE SYSTEM.”

Upper Trinity has indicated that it has begun planning for the financing and construction of an expansion to the Riverbend Plant that would expand the plant’s total treatment capacity to at least 4.0 MGD, which expansion is currently planned for completion during 2019. District 11-A has subscribed to 262,000 gpd of capacity in such expansion for the benefit of District 11-A, the District and District 11-C. Under the Joint Utility Contract, upon completion of such expansion, the District will be allocated a total of 245,000 gpd of wastewater treatment capacity. The District can make no assurances with respect to the ultimate date of completion of the expansion to the Riverbend Plant and resulting increase in contractually allocated treatment capacity. See “THE SYSTEM – Description of the System – Wastewater Treatment.”

Further, pursuant to the Joint Utility Contract, the District, District 11-A and District 11-C have established a procedure for sharing the costs of securing treated water and wastewater services, as well as the costs of certain utility facilities.

The District, District 11-A and District 11-C have agreed to establish and collect fees and charges sufficient to pay their respective shares of the obligations under the Contracts with Upper Trinity and the costs of certain utility facilities. Each district has also agreed to levy and, if necessary, annually assess and collect an ad valorem tax, unlimited in rate or amount, sufficient to accomplish full and timely payment of all costs, charges, fees, and expenses due under the Joint Utility Contract, including each district's share of the obligations under the Contracts. In the Contracts with Upper Trinity, District 11-A has pledged all payments raised by the District, District 11-A and District 11-C pursuant to the Joint Utility Contract to the payment of the obligations under the Contracts.

In the past, Denton 380 advanced funds to pay a substantial portion of the fees and charges due under the Joint Utility Contract on behalf of the District.

Each of the District, District 11-A and District 11-C has the statutory authority to levy and collect an annual ad valorem tax to make payments under a contract, if the provisions of the contract have been approved by a majority of the qualified voters of such District, and such tax is approved by the TCEQ. On May 12, 2007, voters in the District approved the Joint Utility Contract and levy of a contract tax in support thereof without legal limitation as to rate or amount. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds and the Bonds, taxes for any additional tax bonds which may be issued in the future, and taxes for the maintenance of the District's improvements and operational expenses. The District has not made application to the TCEQ for approval of the levy of a tax pursuant to the Joint Utility Contract, and accordingly the District has not levied a contract tax at this time; however, if the District were to levy such a tax, such contract tax, when added to the District's debt service tax and maintenance tax, could result in a total District tax rate in excess of the tax rate of similar developments and could adversely affect continued development of the District as well as the willingness of taxpayers to pay taxes on their property.

Tax Collections and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by difficulties in collecting ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure.

The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures; (b) a bankruptcy court's stay of tax collection proceedings against a taxpayer; or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. See "TAXING PROCEDURES – Collection."

Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "TAX DATA--Estimated Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property after foreclosure). Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against the collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies

Remedies available to Registered Owners of Bonds in the event of a default by the District under the Bond Order are limited. Although the Bond Order provides that the Registered Owners may obtain a writ of mandamus requiring performance by the District, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. The Bond Order does not provide for acceleration of maturity of the Bonds, appointment of a trustee to protect the interests of the Registered Owners or any other

additional remedy in the event of a default by the District. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. The Bonds are not secured by an interest in the improvements financed with the Bonds, or any other property of the District. No judgment against the District is enforceable by execution of a levy against the District's public purpose property. Further, the Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The rights of the Registered Owners and the enforceability of the Bonds may also be delayed, reduced or otherwise affected by a State of Texas statute reasonably required to allow an important public purpose or by proceedings under the Federal Bankruptcy Code or other laws affecting the enforcement of creditors' rights generally.

Future Debt

Following the issuance of the Bonds, the District will have \$18,015,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of financing the Road System; \$20,210,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of financing the Utility System; and \$55,100,000 in principal amount of authorized but unissued unlimited tax refunding bonds for purposes of refunding the outstanding bonds of the District. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds.

Based on present engineering cost estimates and on development plans, in the opinion of the District's Engineer, following the issuance of the Bonds, the remaining \$18,015,000 principal amount of authorized but unissued unlimited tax bonds for financing the Road System will be sufficient to fully finance the Road System 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 District's Engineer, the remaining \$20,210,000 principal amount of authorized but unissued unlimited tax bonds for financing the Utility System will be sufficient to fully finance the Utility System to serve the remaining undeveloped but developable land within the District.

Following the issuance of the Bonds, the District will owe the Developers approximately \$3,500,000 for the reimbursable expenditures advanced to operate the District and capacity payments to Upper Trinity on behalf of the District (but not including funds advanced toward construction and expansion of the Riverbend Plant). See "THE ROAD SYSTEM," "THE UTILITY SYSTEM" and "THE DISTRICT – Status of Development."

The District is in the process of preparing a bond application for the issuance of approximately \$3,875,000 of unlimited tax bonds to finance Utility System improvements within the District. Such bonds are anticipated to be sold in the third quarter of 2019.

Marketability of the Bonds

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

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of

political subdivisions such as the District. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

The District may not be placed into bankruptcy involuntary.

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

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

Future and Proposed Legislation

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

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without legal limitation as to rate or amount,

upon all taxable property within the District. The District will also furnish the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to sovereign immunity and to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District.

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

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

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

Legal Review

In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., has reviewed the information appearing in this OFFICIAL STATEMENT under the captioned sections "THE BONDS (except for information with respect to the amount of Outstanding Bonds and information under the subheadings "Annexation," "Issuance of Additional Debt," and "Use and Distribution of Bond Proceeds");" "THE DISTRICT—Bond Counsel," "TAXING PROCEDURES," "LEGAL MATTERS - Legal Opinions," and "TAX MATTERS" solely to determine whether such information fairly summarizes the documents, laws and procedures referred to therein. Such firm has not independently verified factual information contained in this OFFICIAL STATEMENT, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

TAX MATTERS

Opinion

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

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

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements

may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified

small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

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

NO-LITIGATION CERTIFICATE

With the delivery of the Bonds, the President and Secretary of the Board will, on behalf of the District, execute and deliver to the Underwriter a certificate dated as of the date of delivery, to the effect that no litigation of any nature is pending against or, to the knowledge of the District’s certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

NO MATERIAL ADVERSE CHANGE

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered 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 events, to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) System.

Annual Reports

The District shall file annually with the MSRB, (1) within six months after the end of each fiscal year ending in or after 2019, financial information and operating data of the general type included in this Official Statement under the headings, “DISTRICT FINANCIAL DATA (UNAUDITED)” (except for “Estimated Overlapping Debt”), “TAX DATA,” and financial statements of the District including supplemental schedules and (2) if not provided as part of such financial information and operating data, audited financial statements when and if available. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within twelve months after any such fiscal year end,

then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such twelve month period, and audited financial statements when the audit report becomes available.

The District's current fiscal year end is the last day of each February. Accordingly, it must provide updated information by August 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 certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR §240.15c2-12 (the "Rule" or "SEC Rule 15c2-12"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide 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 information only to the MSRB. The information will be available to holders of Bonds at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain 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 registered 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 to 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 by only (1) 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 SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified professional 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. 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. The District may also amend or repeal its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of such rule are invalid, and the District also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its previous continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the District's records, the District Engineer, the Developers, the Tax Assessor/Collector, the Auditor, the Denton Central Appraisal District and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The District's audited financial statements for the year ended February 28, 2018, were prepared by McCall Gibson Swedlund Barfoot PLLC, and have been included herein as "APPENDIX A." McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Official Statement.

Experts

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

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

The information contained in this Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE DISTRICT," "THE UTILITY SYSTEM" and "THE ROAD SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

Certification as to Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriter a certificate, executed by the President and Secretary of the Board of Directors of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data, contained in this Official Statement, of or

pertaining to entities other than the District, such statements and data have been obtained from sources which the District believes to be reliable, and the District has no reason to believe that they are untrue in any material respect.

Updating the Official Statement

If, subsequent to the date of the Official Statement to and including the date the Underwriter is no longer required to provide an Official Statement to potential customers who request the same pursuant to SEC Rule 15c2-12 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Underwriter of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Underwriter a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Underwriter. The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Underwriter (the "end of the underwriting period" within the meaning of the Rule), unless the Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Underwriter agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

CONCLUDING STATEMENT

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

This Official Statement was approved by the Board of Directors of Denton County Fresh Water Supply District No. 11-B as of the date specified on the first page hereof.

/s/ Andrea Lagusis
President, Board of Directors
Denton County Fresh Water Supply District No. 11-B

ATTEST:

/s/ David McClellan
Secretary, Board of Directors
Denton County Fresh Water Supply District No. 11-B

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B

DENTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FEBRUARY 28, 2018

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B

DENTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FEBRUARY 28, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denton County Fresh Water Supply District No. 11-B
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Fresh Water Supply District No. 11-B (the "District"), as of and for the year ended February 28, 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.

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 February 28, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

June 19, 2018

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 28, 2018

Management's discussion and analysis of Denton County Fresh Water Supply District No. 11-B's (the "District") financial performance provides an overview of the District's financial activities for the year ended February 28, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 28, 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 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 basic 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, assets exceeded liabilities and deferred inflows of resources by \$738,187 as of February 28, 2018. The following is a comparative analysis of government-wide changes in the Statement of Net Position as of February 28, 2018, and February 28, 2017:

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 28, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 5,503,229	\$ 3,654,061	\$ 1,849,168
Capital Assets (Net of Accumulated Depreciation)	15,134,527	11,091,059	4,043,468
Total Assets	\$ 20,637,756	\$ 14,745,120	\$ 5,892,636
Due to Developer	\$ 5,936,209	\$ 421,120	\$ (5,515,089)
Bonds Payable	12,663,752	12,997,102	333,350
Other Liabilities	407,765	448,888	41,123
Total Liabilities	\$ 19,007,726	\$ 13,867,110	\$ (5,140,616)
Deferred Inflows of Resources	\$ 891,843	\$ 907,240	\$ 15,397
Net Position:			
Net Investment in Capital Assets	\$ (981,833)	\$ (1,066,311)	\$ 84,478
Restricted	416,248	179,923	236,325
Unrestricted	1,303,772	857,158	446,614
Total Net Position	\$ 738,187	\$ (29,230)	\$ 767,417

*

The following table provides a summary of the District's operations for the years ending February 28, 2018, and February 28, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,616,772	\$ 1,189,918	\$ 426,854
Charges for Services	974,832	931,183	43,649
Other Revenues	161,809	21,911	139,898
Total Revenues	\$ 2,753,413	\$ 2,143,012	\$ 610,401
Expenses for Services	1,985,996	1,839,570	(146,426)
Change in Net Position	\$ 767,417	\$ 303,442	\$ 463,975
Net Position, Beginning of Year	(29,230)	(332,672)	303,442
Net Position, End of Year	\$ 738,187	\$ (29,230)	\$ 767,417

*

* As Adjusted

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 28, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of February 28, 2018, were \$2,427,931, an increase of \$684,850 from the prior year.

The General Fund fund balance increased by \$446,307, primarily due to service and tax revenues exceeding operating costs.

The Debt Service Fund fund balance increased by \$237,244, primarily due to the structure of the District's outstanding debt and a reimbursement from another district.

The Capital Projects Fund fund balance increased by \$1,299.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were more than budgeted revenues by \$214,384. Actual expenditures were less than budgeted expenditures by \$50,509. Revenue variances were primarily caused by growth in the District while actual purchased water and wastewater expenditures were less than anticipated. See the budget to actual comparison.

CAPITAL ASSETS

Capital assets as of February 28, 2018, total \$15,134,527 (net of accumulated depreciation) and include roads as well as the water, wastewater and drainage systems. Significant capital asset additions during the current year included utilities and roads serving Northlake Estates, Phase 1.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 588,216	\$ 588,216	\$
Capital Assets, Net of Accumulated Depreciation:			
Water System	2,051,174	1,531,866	519,308
Wastewater System	3,764,092	2,788,110	975,982
Drainage System	1,476,765	989,215	487,550
Roads	7,254,280	5,193,652	2,060,628
Total Net Capital Assets	\$ 15,134,527	\$ 11,091,059	\$ 4,043,468

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED FEBRUARY 28, 2018**

LONG-TERM DEBT

As of February 28, 2018, the District had total bond debt payable of \$12,915,000. The changes in the debt position of the District during the year ended February 28, 2018, are summarized as follows:

Bond Debt Payable, March 1, 2017	\$ 13,260,000
Less: Bond Principal Paid	<u>345,000</u>
Bond Debt Payable, February 28, 2018	<u>\$ 12,915,000</u>

The District’s Series 2011, Series 2014, Series 2014 Road bonds and Series 2015 Road bonds were not rated for the current nor prior fiscal years. The Series 2016 bonds carry an underlying rating of “Baa2”. The insured rating was withdrawn. Such ratings reflect changes through February 28, 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 Denton County Fresh Water Supply District No. 11-B, c/o Crawford & Jordan LLP, 19 Briar Hollow Lane, Suite 245, Houston, TX 77027.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
FEBRUARY 28, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 2,183,106	\$ 806,790
Investments	552,199	503,122
Cash with Fiscal Agent		232,425
Receivables:		
Property Taxes	4,398	5,793
Service Accounts	48,819	
Accrued Interest	278	302
Due from Other Funds	61,212	
Due from Other Governmental Entities		
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 2,850,012	\$ 1,548,432

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 282,670	\$ 3,272,566	\$	\$ 3,272,566
250,252	1,305,573		1,305,573
	232,425		232,425
	10,191		10,191
	48,819		48,819
258	838		838
	61,212	(61,212)	
		632,817	632,817
		588,216	588,216
		14,546,311	14,546,311
<u>\$ 533,180</u>	<u>\$ 4,931,624</u>	<u>\$ 15,706,132</u>	<u>\$ 20,637,756</u>

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
FEBRUARY 28, 2018

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 105,120	\$
Accrued Interest Payable		
Due to Developers	1,370,900	
Due to Other Funds		7,916
Security Deposits	70,220	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 1,546,240	\$ 7,916
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 4,398	\$ 891,843
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		648,673
Committed for Fire Protection Services	10,572	
Unassigned	1,288,802	
TOTAL FUND BALANCES	\$ 1,299,374	\$ 648,673
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,850,012	\$ 1,548,432
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$	\$ 105,120	\$	\$ 105,120
		232,425	232,425
	1,370,900	4,565,309	5,936,209
53,296	61,212	(61,212)	
	70,220		70,220
		355,000	355,000
		12,308,752	12,308,752
<u>\$ 53,296</u>	<u>\$ 1,607,452</u>	<u>\$ 17,400,274</u>	<u>\$ 19,007,726</u>
<u>\$ -0-</u>	<u>\$ 896,241</u>	<u>\$ (4,398)</u>	<u>\$ 891,843</u>
\$ 479,884	\$ 479,884	\$ (479,884)	\$
	648,673	(648,673)	
	10,572	(10,572)	
	1,288,802	(1,288,802)	
<u>\$ 479,884</u>	<u>\$ 2,427,931</u>	<u>\$ (2,427,931)</u>	<u>\$ - 0 -</u>
<u>\$ 533,180</u>	<u>\$ 4,931,624</u>		
		\$ (981,833)	\$ (981,833)
		416,248	416,248
		1,303,772	1,303,772
		<u>\$ 738,187</u>	<u>\$ 738,187</u>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FEBRUARY 28, 2018**

Total Fund Balances - Governmental Funds \$ 2,427,931

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 15,134,527

Deferred inflows of resources related to property tax revenue for the 2017 maintenance tax levy is recorded as revenue in governmental activities. 4,398

Long-term receivables due from other governmental entities are recorded in the Statement of Net Position. 632,817

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

Due to Developer	\$ (4,565,309)	
Accrued Interest Payable	(232,425)	
Bonds Payable	<u>(12,663,752)</u>	<u>(17,461,486)</u>
Total Net Position - Governmental Activities		<u>\$ 738,187</u>

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

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED FEBRUARY 28, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 696,344	\$ 920,121
Water Service	448,462	
Wastewater Service	384,918	
Fire Protection Service	69,290	
Franchise Fees	45,974	
Penalty and Interest	15,188	
Permit Fees	11,000	
Miscellaneous Revenues	28,452	5,281
TOTAL REVENUES	\$ 1,699,628	\$ 925,402
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 102,024	\$
Contracted Services	407,129	2,365
Purchased Water Service	532,466	
Purchased Wastewater Service	172,691	
Repairs and Maintenance	11,285	
Depreciation		
Other	27,726	
Debt Service:		
Bond Principal		345,000
Bond Interest		467,570
TOTAL EXPENDITURES/EXPENSES	\$ 1,253,321	\$ 814,935
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 446,307	\$ 110,467
OTHER FINANCING SOURCES (USES)		
Transfer from Other Governmental Entity	\$ - 0 -	\$ 126,777
NET CHANGE IN FUND BALANCES	\$ 446,307	\$ 237,244
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - MARCH 1, 2017, AS ADJUSTED	853,067	411,429
FUND BALANCES/NET POSITION - FEBRUARY 28, 2018	\$ 1,299,374	\$ 648,673

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,616,465	\$ 307	\$ 1,616,772
	448,462		448,462
	384,918		384,918
	69,290		69,290
	45,974		45,974
	15,188		15,188
	11,000		11,000
<u>1,299</u>	<u>35,032</u>	<u>126,777</u>	<u>161,809</u>
<u>\$ 1,299</u>	<u>\$ 2,626,329</u>	<u>\$ 127,084</u>	<u>\$ 2,753,413</u>
\$	\$ 102,024	\$	\$ 102,024
	409,494		409,494
	532,466		532,466
	172,691		172,691
	11,285		11,285
		250,171	250,171
	27,726		27,726
	345,000	(345,000)	
	<u>467,570</u>	<u>12,569</u>	<u>480,139</u>
<u>\$ - 0 -</u>	<u>\$ 2,068,256</u>	<u>\$ (82,260)</u>	<u>\$ 1,985,996</u>
<u>\$ 1,299</u>	<u>\$ 558,073</u>	<u>\$ 209,344</u>	<u>\$ 767,417</u>
<u>\$ - 0 -</u>	<u>\$ 126,777</u>	<u>\$ (126,777)</u>	<u>\$ - 0 -</u>
\$ 1,299	\$ 684,850	\$ (684,850)	\$
		767,417	767,417
<u>478,585</u>	<u>1,743,081</u>	<u>(1,772,311)</u>	<u>(29,230)</u>
<u>\$ 479,884</u>	<u>\$ 2,427,931</u>	<u>\$ (1,689,744)</u>	<u>\$ 738,187</u>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2018**

Net Change in Fund Balances - Governmental Funds	\$	684,850
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.		307
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(250,171)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		345,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		<u>(12,569)</u>
Change in Net Position - Governmental Activities	\$	<u>767,417</u>

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 1. CREATION OF DISTRICT

On December 12, 2000, the Denton County Commissioners Court approved the order creating Denton County Fresh Water Supply District No. 11 of Denton County, Texas (“District No. 11”). At an election held on January 20, 2001, voters confirmed the creation of District No. 11. On February 20, 2001, following a hearing, the governing board of District No. 11 approved the conversion of District No. 11 to a Water Control and Improvement District operating under Chapter 51 of the Texas Water Code and specifically reserved certain rights under Sections 53.029, 53.030 through 53.034, 53.040 through 53.041, 53.112, 53.121, and 53.125 of the Texas Water Code.

At an election held within the boundaries of District No. 11 on May 3, 2003, voters approved the division of District No. 11 into two new districts, of which Denton County Fresh Water Supply District No. 11-B (“Original District 11-B”) was one. At an election held within the boundaries of Original District 11-B on November 8, 2005, voters approved the division of Original District 11-B into two districts consisting of Denton County Fresh Water Supply District No. 11-B (the “District”) and Denton County Fresh Water Supply District No. 11-C (“District 11-C”). The District held its first meeting on November 17, 2005. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, roads, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

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

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

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

Property taxes considered available by the District and included in revenue include collections of the 2017 and prior maintenance tax levies and the 2016 debt service tax levy. Recognition of tax revenues from the 2017 debt service tax levy has been deferred to the upcoming fiscal year to more closely match the timing of the debt service payments.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of February 28, 2018, the Debt Service Fund owed the General Fund \$7,916 for tax collections and the Capital Projects Fund owed the General Fund \$53,296 for bond issuance costs.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
Roads	45

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 year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

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

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

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

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

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District has committed \$10,572 for fire protection services.

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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	Road Series 2011	Series 2014
Amount Outstanding – February 28, 2018	\$2,420,000	\$1,915,000
Interest Rates	4.00% - 5.25%	2.50% - 4.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2018/2038	September 1, 2018/2038
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2019*	September 1, 2022*

	Road Series 2014	Road Series 2015	Series 2016
Amount Outstanding – February 28, 2018	\$2,090,000	\$3,220,000	\$3,270,000
Interest Rates	2.00% - 4.125%	2.00% - 3.875%	1.10% - 3.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2018/2039	September 1, 2018/2040	September 1, 2018/2040
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2022*	September 1, 2023*	September 1, 2024*

* On any date thereafter, at a price of par plus unpaid accrued interest to the date fixed for redemption. The Series 2011 Road term bonds maturing on September 1, 2026, September 1, 2030, and September 1, 2038, are subject to mandatory redemption beginning September 1, 2025, September 1, 2027, and September 1, 2031, respectively. The Series 2014 term bonds maturing on September 1, 2034, and September 1, 2038, are subject to mandatory redemption beginning September 1, 2033, and September 1, 2035, respectively. The Series 2014 Road term bonds maturing on September 1, 2037, and September 1, 2039, are subject to mandatory redemption beginning September 1, 2036, and September 1, 2038, respectively. The Series 2015 Road term bonds maturing on September 1, 2026, 2028, 2030, 2032, 2034, 2036, 2038, and 2040 are subject to mandatory redemption beginning September 1, 2025, 2027, 2029, 2031, 2033, 2035, 2037 and 2039, respectively. The Series 2016 term bonds maturing on September 1, 2026, 2028, 2030, 2033, and 2040, are subject to mandatory redemption beginning September 1, 2025, 2027, 2029, 2031, and 2039, respectively.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended February 28, 2018:

	March 1, 2017	Additions	Retirements	February 28, 2018
Bonds Payable	\$ 13,260,000	\$	\$ 345,000	\$ 12,915,000
Unamortized Discounts	(262,898)		(11,650)	(251,248)
Bonds Payable, Net	\$ 12,997,102	\$ -0-	\$ 333,350	\$ 12,663,752
			Amount Due Within One Year	\$ 355,000
			Amount Due After One Year	12,308,752
			Bonds Payable, Net	\$ 12,663,752

As of February 28, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 355,000	\$ 464,850	\$ 819,850
2020	370,000	457,132	827,132
2021	385,000	447,944	832,944
2022	400,000	437,805	837,805
2023	420,000	426,700	846,700
2024-2028	2,390,000	1,925,790	4,315,790
2029-2033	3,010,000	1,465,305	4,475,305
2034-2038	3,755,000	824,322	4,579,322
2039-2041	1,830,000	118,443	1,948,443
	\$ 12,915,000	\$ 6,568,291	\$ 19,483,291

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

The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. During the year ended February 28, 2018, the District levied a total ad valorem debt service tax rate of \$0.54 per \$100 of assessed valuation which resulted in a tax levy of \$891,843 on the adjusted taxable valuation of \$165,156,098 for the 2017 tax year. The entire 2017 tax levy has been deferred to meet the debt service costs of the next fiscal year. See Note 7 for the maintenance tax levy.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The District's tax calendar is as follows:

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

As of February 28, 2018, the District had authorized but unissued bonds in the amount of \$20,210,000 for water, sewer and drainage facilities, \$21,250,000 for roads and \$55,100,000 for refunding purposes.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The District is required to provide to certain information repositories continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds be rebated to the federal government, within the meaning of Section 148(f) of the Internal Revenue Code. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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 \$3,922,361 and the bank balance was \$3,801,513. The District was not exposed to custodial credit risk at year end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at February 28, 2018, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 2,183,106	\$ 249,543	\$ 2,432,649
DEBT SERVICE FUND	806,790	150,000	956,790
CAPITAL PROJECTS FUND	282,670	250,252	532,922
TOTAL DEPOSITS	\$ 3,272,566	\$ 649,795	\$ 3,922,361

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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
LOGIC	\$ 302,656	\$ 302,656
Certificate of Deposit	249,543	249,543
<u>DEBT SERVICE FUND</u>		
LOGIC	353,122	353,122
Certificate of Deposit	150,000	150,000
<u>CAPITAL PROJECTS FUND</u>		
Certificates of Deposit	<u>250,252</u>	<u>250,252</u>
TOTAL INVESTMENTS	<u>\$ 1,305,573</u>	<u>\$ 1,305,573</u>

The District invests in LOGIC (Local Government Investment Cooperative), an external public fund investment pool that is not SEC-registered. LOGIC is organized and existing as a business trust under the laws of the State of Texas with all participant funds and all investment assets held and managed in trust by a Board of Trustees for the benefit of the participants. Hilltop Securities, Inc. and J.P. Morgan Investment Management, Inc. serve as co-administrators of the pool. LOGIC measures all of its portfolio assets at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from LOGIC. The District measures its investments in LOGIC and 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. As of February 28, 2018, the District's investment in LOGIC was rated AAAM by Standard and Poor's. The District manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage.

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

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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2018:

	March 1, 2017	Increases	Decreases	February 28, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 588,216	\$ -0-	\$ -0-	\$ 588,216
Capital Assets Subject to Depreciation				
Water System	\$ 1,739,883	\$ 559,533	\$ -	\$ 2,299,416
Wastewater System	3,061,163	1,026,333	-	4,087,496
Drainage System	1,112,439	513,177	-	1,625,616
Roads	5,860,200	2,194,596	-	8,054,796
Total Capital Assets Subject to Depreciation	<u>\$ 11,773,685</u>	<u>\$ 4,293,639</u>	<u>\$ -0-</u>	<u>\$ 16,067,324</u>
Less Accumulated Depreciation				
Water System	\$ 208,017	\$ 40,225	\$ -	\$ 248,242
Wastewater System	273,053	50,351	-	323,404
Drainage System	123,224	25,627	-	148,851
Roads	666,548	133,968	-	800,516
Total Accumulated Depreciation	<u>\$ 1,270,842</u>	<u>\$ 250,171</u>	<u>\$ -0-</u>	<u>\$ 1,521,013</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,502,843</u>	<u>\$ 4,043,468</u>	<u>\$ -0-</u>	<u>\$ 14,546,311</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 11,091,059</u>	<u>\$ 4,043,468</u>	<u>\$ -0-</u>	<u>\$ 15,134,527</u>

NOTE 7. MAINTENANCE TAX

On May 12, 2007, voters of the District approved the levy and collection of a maintenance tax of an unlimited rate on all taxable property within the District. The maintenance tax will be used for maintenance and other authorized purposes including, but not limited to, planning, constructing, acquiring, maintaining, repairing and operating all necessary land, works, improvements, facilities, plants, equipment and appliances, and for the payment of proper services, engineering fees, legal fees, and organization and administrative costs in accordance with Section 49.107 of the Texas Water Code. During the year ended February 28, 2018, the District levied an ad valorem maintenance tax rate of \$0.41 per \$100 of assessed valuation, which resulted in a tax levy of \$677,140 on the adjusted taxable valuation of \$165,156,098 for the 2017 tax year.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 8. CONTRACT TAX

On May 12, 2007, the voters of the District approved the levy and collection of an annual contract tax at an unlimited rate imposed on all taxable property within the boundaries of the District. Upon approval of the Texas Commission on Environmental Quality, the contract tax may be levied in a sufficient amount to make payments under the Joint Utility Contract (see Note 12) to the extent other funds are not available to make such payments. During the current fiscal year, the District did not levy a contract tax.

NOTE 9. WATER SUPPLY AGREEMENT

Upper Trinity Regional Water District Regional Treated Water System Participating Customer Contract

On August 29, 2001, Denton County Fresh Water Supply District No. 11-A (District 11-A) executed an agreement with the Upper Trinity Regional Water District (the “UTRWD”) to provide treated water to the District as a Participating Customer of the UTRWD. The First Amendment to Participating Customer Contract was executed on September 6, 2001. The Second Amendment to Participating Customer Contract was executed on February 24, 2004. The UTRWD has agreed to use its best efforts to build the facilities called for in this agreement and to issue debt to fund the cost of the facilities.

The UTRWD is governed by a Board of directors that are appointed by the governing bodies of members and by the County. District 11-A, as a Participating Customer, is not entitled to appoint a representative to the Board; however, District 11-A will be represented by a Board member serving Denton County at-large.

Pursuant to the Second Amendment, the supply of water on a minimum demand increased from 1.00 to 1.50 million gallons of water per day (MGD) through an interim period. In accordance with the agreement, the interim period quantity applied until the Tom Harpool Regional Treated Water Plant and the associated pipelines and pumping facilities (collectively, the “Harpool Plant”) were constructed and operational. The Harpool Plant now has been completed and is in operation; accordingly, District 11-A’s supply of water on a minimum demand is 3.00 MGD. District 11-A is required to take or pay for the minimum amount of water to assure adequate funds to the UTRWD to fulfill its obligations under the contract. District 11-A may adjust the regular service amount upon mutual agreement with the UTRWD. A determination of demand on an annual basis that takes into account actual usage for the most recent five water years and projected needs for the next water year will be made. The water supply capacity allocated to District 11-A by UTRWD and associated costs are further allocated pursuant to a Joint Utility Contract (See Note 12).

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 9. WATER SUPPLY AGREEMENT (Continued)

Upper Trinity Regional Water District Regional Treated Water System Participating Customer Contract (Continued)

Payments to UTRWD are comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. District 11-A pays its part of the annual requirement in monthly installments. The agreement provides for water conservation and drought contingency issues. The term of the contract is 25 years or as long as the bonds issued remain outstanding. The Contract further has a 20-year extension provision.

NOTE 10. SEWAGE TREATMENT SERVICE AGREEMENT

Upper Trinity Regional Water District Northeast Regional Water Reclamation System Participating Customer Contract

On August 29, 2001, Denton County Fresh Water Supply District No. 11-A (District 11-A) executed an agreement (the “UTRWD Wastewater Agreement”) with the UTRWD to provide wastewater treatment service to District 11-A as a Participating Customer of the UTRWD. The UTRWD has agreed to use its best efforts to build the facilities called for in this agreement and to issue debt, if necessary, to fund the cost of the facilities. During a prior fiscal year, the District and District 11-A’s Developer advanced monies on behalf of the Districts to the UTRWD for the District’s share of the construction cost of the Riverbend Wastewater Treatment Plant.

The UTRWD is governed by a Board of directors that are appointed by the governing bodies of members and by the County. District 11-A, as a Participating Customer, is not entitled to appoint a representative to the Board; however, District 11-A will be represented by a Board member serving Denton County at-large.

Pursuant to an amendment to the UTRWD Wastewater Agreement, dated November 18, 2015, District 11-A has capacity of 0.716 MGD in the Riverbend plant. This capacity, which is an increase of 0.262 MGD over the previous allocation of 0.454 MGD, is based on the construction of the expansion (the “2019 Riverbend Expansion”) to UTRWD’s Riverbend wastewater treatment facility, which expansion is expected to be complete in 2019. UTRWD has indicated that District 11-A would have use of surplus capacity, if necessary and as available, above the 0.454 MGD during the period prior to completion of the 2019 Riverbend Expansion. District 11-A is required to pay based on this 0.454 MGD minimum flow basis of wastewater, whether or not District 11-A actually delivers this amount of wastewater to the UTRWD, to assure adequate funds to the UTRWD to fulfill its obligations under the contract. District 11-A will be required to pay its share of the capital costs associated with the 2019 Riverbend Expansion, and District 11-A will begin payment of its annual requirement (see next paragraph) on the 0.716 MGD

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 10. SEWAGE TREATMENT SERVICE AGREEMENT (Continued)

Upper Trinity Regional Water District Northeast Regional Water Reclamation System
Participating Customer Contract (Continued)

minimum flow basis (as opposed to the 0.454 MGD basis currently applied) at such time as the 2019 Riverbend Expansion is complete and the additional 0.262 MGD capacity is physically available.

Payments are comprised of an operation and maintenance component, a capital component and a volume component. Annual budgets are prepared for the system. District 11-A pays its part of the annual requirement in monthly installments. The wastewater treatment capacity allocated to District 11-A by UTRWD under the UTRWD Wastewater Agreement and associated costs are further allocated pursuant to a Joint Utility Contract (See Note 12). The term of the contract is 25 years or as long as the bonds issued remain outstanding. The Contract further has a 20-year extension provision.

NOTE 11. WATER AND SEWER SERVICE AGREEMENT

On June 18, 2001, Denton County Fresh Water Supply District No. 11-A (District 11-A) approved a Water Service Agreement and a Sewer Service Agreement with Mustang Water Supply Corporation, now known as Mustang Special Utility District (“Mustang”). Mustang holds Certificates of Convenience and Necessity Nos. 11856 and 20930 (“CCN”) to provide retail water and wastewater services to certain areas within Denton County, Texas, in which area the District is located. In addition, Denton County Fresh Water Supply District No. 11-A holds CCN Nos. 13022 and 20924 to provide retail water and wastewater services to a portion of the areas within the District.

Effective September 1, 2008, the District entered into an Agreement Relating to Water and Sanitary Sewer Service with Mustang. The purpose of this agreement is to (1) facilitate the provisions of wholesale water supply and wastewater treatment services to the District by the UTRWD (through District 11-A), see Notes 9 and 10, (2) facilitate the provision of retail water supply and distribution service and wastewater collection and treatment service by the District within the District service area, and (3) establish the terms and provisions by which Mustang will operate and maintain the District’s water and sanitary sewer facilities located within the District’s service area, and provide for compensation for such services.

During the term of this agreement, Mustang agrees to perform the schedule of services as outlined in Exhibit “B” of the agreement. Mustang will be responsible for the monthly meter reading and billing of each customer of the District. Mustang will collect the amounts due the District for water and wastewater services and will remit the funds collected on behalf of the District at least once per month. In addition, Mustang will bill and collect for solid waste collection from each District customer.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 11. WATER AND SEWER SERVICE AGREEMENT (Continued)

Compensation to Mustang for Exhibit “B” services will be based on an annual operations and maintenance budget beginning October 1 and ending September 30. The costs contained in the annual budget will be categorized as follows: 1.) Mustang-only costs; 2.) District-only costs; 3.) shared costs which are allocated based on the District’s pro rata share of connections; and 4.) indirect shared administration costs, of which 20% will be allocated to the districts Mustang is providing service to. The District will be invoiced for actual costs plus a 15% overhead charge. The summation of categories 2 through 4 above plus a 15% charge will be allocated to the District based upon the number of active equivalent single-family connections for the District. The number of District connections will be determined monthly and the District’s pro rata share of costs for the upcoming month will be adjusted accordingly. In addition, the District will pay Mustang 30% of any disconnection, re-connection and return check fees charged by the District.

For other services provided by Mustang for installations, maintenance or repair of the District’s system not listed on Exhibit “B”, the District will pay for such costs based upon Mustang’s actual and direct expenses. Mustang may add a 15% overhead charge to its actual and direct expenses for these services. The District will pay for such services within 30 days from the date of the invoice.

No sooner than ten years after the effective date of this agreement, and upon full payment of all the District’s bonded indebtedness and all outstanding reimbursements due to the Developer, Mustang shall have the option to purchase the District’s water and wastewater systems in its then present condition at Mustang’s sole option at a cost of \$500, provided that at that time of the exercise of the option, Mustang delivers an opinion of counsel satisfactory to UTRWD and the District that certifies that Mustang or its successor is a governmental unit within the meaning of Section 141 of the Internal Revenue Code. The term of this agreement is 25 years from the effective date, unless terminated by Mustang pursuant to the option to purchase the District’s water and wastewater systems.

NOTE 12. JOINT UTILITY CONTRACT

On February 24, 2004, the District and District 11-A entered into a Joint Utility Contract. District 11-A has entered into the UTRWD contracts, see Notes 9 and 10, on behalf of itself and the District and any additional contract service areas that may request utility services. In relation to the UTRWD contracts, the UTRWD will look solely to District 11-A to fulfill the obligations of the contracts. This agreement establishes the pro rata allocation of the water and wastewater service capacity and costs to be incurred under the UTRWD contracts. The share of the fixed costs shall be paid based upon the reserved capacity each District holds in comparison to the total capacity reserved for all Districts. The contract also addresses the payment allocation of variable costs. In relation to the Mustang contracts, District 11-A will be responsible for all costs as outlined in the agreements until such time as District 11-A commences construction of its internal water and wastewater systems. Upon such commencement, each district agrees to pay its pro rata share of the costs of the agreements based upon developer acreage with each district.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 12. JOINT UTILITY CONTRACT (Continued)

On November 1, 2006, the District, District 8-A, District 11-A and District 11-C executed a Cost Sharing Agreement Related to Joint Utility Facilities (Agreement). In accordance with this Agreement, each district agrees to pay its pro rata share of the construction costs and operating and maintenance costs of the Joint Facilities in the amounts and percentages provided for in the Agreement. Upon payment of its pro rata share, each district will become the owner of an equitable and beneficial interest in the capacity of the Joint Facilities.

Effective March 1, 2011, the District, District 11-A and District 11-C entered into a Merged, Amended and Restated Joint Utility Contract that replaced and superseded the 2006 contract. Effective June 1, 2017, the District, District 11-A and District 11-C entered into a Fifth Amendment to Merged, Amended and Restated Joint Utility Contract. Under this Fifth Amendment, until UTRWD completes construction of the 2019 Riverbend Expansion, the District is allocated 0.076 MGD of wastewater treatment capacity, District 11-A is allocated 0.3188 MGD of wastewater treatment capacity and District 11-C is allocated 0.0592 MGD of wastewater treatment capacity. Upon completion of the 2019 Riverbend Expansion, the District will be allocated 0.245 MGD of wastewater treatment capacity, District 11-A will be allocated 0.353 MGD of wastewater treatment capacity and District 11-C will be allocated 0.118 MGD of wastewater treatment capacity. With respect to water supply capacity, the District is allocated 1.029 MGD under this Fifth Amendment, District 11-A is allocated 1.478 MGD and District 11-C is allocated 0.493 MGD.

Effective April 17, 2012, the District, District 11-A and District 11-C executed the First Amendment to Merged, Amended and Restated Joint Utility Contract. This amendment modifies the procedure for the allocation of the usage, operation and maintenance costs to be incurred under the UTRWD contracts. The share of the fixed costs, including Demand Charges and Joint Facilities Charges under the UTRWD contracts, will be paid based upon the reserved capacity each district holds in proportion to the total capacity reserved for all districts. Relative to charges under the UTRWD Water Contract, each district will pay variable costs, including Volume Charges, in proportion to its relative wholesale water usage on a monthly basis as approximated by the proportion of each district's retail customer water billings during any monthly period to the total retail customer water billings in all three districts. Relative to charges under the UTRWD Wastewater Contract, each district will pay variable costs, including Volume Charges, in proportion to its relative wholesale wastewater usage on a monthly basis as approximated by the proportion of equivalent single-family connections (ESFCs) in each district to the total number of ESFCs in all three districts.

The District and Denton County Fresh Water Supply District No. 8-A (District 8-A) entered into an Agreement Regarding Temporary Allocation of Reserved Wastewater Treatment Capacity, effective June 1, 2013, and amended on August 20, 2013. Under this agreement, District 8-A has agreed to allocate to the District, on a temporary basis, 0.070 MGD of District 8-A's wastewater treatment capacity reserved under a joint utility contract between District 8-A and District 8-B, and the District has agreed to pay to District 8-A (on monthly basis) all of District 8-A's pro-rata share of fixed-cost obligations attributable to this capacity. This Agreement will

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 12. JOINT UTILITY CONTRACT (Continued)

be in force and effect from the effective date until the date on which the District acquires a permanent, exclusive right to use an additional 0.070 MGD of wastewater treatment capacity under the JUC or otherwise. This Agreement together with the JUC gives the District a total current allocation of 0.140 MGD of wastewater treatment capacity. As discussed above, the District will acquire the right to use such additional treatment capacity upon completion of the 2019 Riverbend Expansion, at which time this Agreement will terminate.

During the current fiscal year, the District recorded expenditures of \$532,466 and \$172,691, respectively, related to its share of purchased water and purchased wastewater costs billed by the UTRWD.

NOTE 13. UNREIMBURSED DEVELOPER COSTS

The District has entered into agreements with the Developer which calls for the Developer to fund costs associated with water, wastewater, drainage and road facilities and non-construction costs, as well as operating advances in order for the District to meet its ongoing financial obligations. Reimbursement is anticipated to be made from the proceeds of future bond sales.

NOTE 14. RISK MANAGEMENT

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

NOTE 15. FIRE PROTECTION SERVICES AGREEMENT

The District, District 8-A, District 8-B, Denton County Fresh Water Supply District No. 9 (now known as Providence Village Water Control and Improvement District of Denton County), Denton County Fresh Water Supply District No. 10, District 11-A, and District 11-C have entered into a Fire Protection Services Agreement with the City of Aubrey, Texas (the "City"), dated December 19, 2007. This agreement was amended on April 27, 2011. The City agrees to provide fire protection services to persons, buildings and property located within the participating districts, including land added to the districts by annexation, in the same manner and to the same extent as it would within the City. The participating districts agree to make monthly payments to the City based on the number of full-time-equivalent employees determined necessary to staff the fire station. Under this agreement, each district's share of costs will be based on the number of connections within such district in proportion to the total number of connections within the districts. The number of connections is to be reassessed on at least a quarterly basis.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 15. FIRE PROTECTION SERVICES AGREEMENT (Continued)

As of April 21, 2015, the Fire Protection Services Agreement was further amended to extend the term to 15 years and to provide Denton County Fresh Water Supply District No. 10, beginning January 1, 2018, an option to exclude a defined portion of the area within its boundaries from service (and corresponding payment obligations) under this Agreement.

NOTE 16. PEACE OFFICER SERVICES AGREEMENT

The District and District Nos. 8-A, 8-B, 11-A and 11-C entered into a Joint Interlocal Cooperation Agreement for Full-Time Law Enforcement Patrol Services with Denton County. The districts share the salary and benefits costs associated with two deputies assigned to patrol these districts on a full-time (40 hours per week) basis, and the districts also are responsible for the purchase of two vehicles and the equipment necessary to outfit each deputy. The term of the current agreement covers October 1, 2016, through September 30, 2017.

During a prior fiscal year, the District and District Nos. 8-A, 8-B, 11-A, and 11-C entered into an agreement for independent contractor services relating to district management, and effective November 16, 2017, this agreement was amended to add to such services the management of law enforcement services. Accordingly, as part of its general management duties, the contractor agrees to manage the Districts' pool of independently contracted peace officers that provide patrol and security services. The Districts agree that each District will pay its pro-rata share of the law enforcement patrol costs arising out of this agreement, including equipment. Each District's pro-rata share shall be determined by the District bookkeeper on a quarterly basis and be based on the number of equivalent single-family connections active in each District in proportion to the total number of connections active in all Districts.

NOTE 17. AGREEMENT REGARDING ALLOCATION OF WHOLESALE WATER AND WASTEWATER VOLUME CHARGES

Effective May 1, 2016, District 11-A and District 8-A executed an Agreement Regarding Allocation of Wholesale Water and Wastewater Volume Charges. The agreement is intended to provide for a more effective and accurate allocation of UTRWD's water and wastewater volume charges to the District and Districts 8-A, 8-B, 11-A and 11-C (Paloma Creek Districts). See also Notes 9, 10 and 12.

The water volume charges will be allocated monthly to each district based on the proportion of its monthly retail water usage to the total monthly retail water usage of all Paloma Creek Districts. A district's monthly retail water usage is calculated as the total gallons of water billed to such district's retail customers each month as reported by Mustang plus the total gallons of water used by such district itself each month as reported by Mustang.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018

NOTE 17. AGREEMENT REGARDING ALLOCATION OF WHOLESALE WATER AND WASTEWATER VOLUME CHARGES (Continued)

The wastewater volume charges will be allocated monthly to each district based on the proportion of ESFCs served by such district to the total number of ESFCs in all of the Paloma Creek Districts. The number of ESFCs must be updated for such cost-allocation purposes at least quarterly.

NOTE 18. PRIOR PERIOD ADJUSTMENTS

During the current fiscal year, it was determined that the useful lives of road facilities should be extended from 30 years to 45 years. Also, it was determined that certain Developer liabilities and related capital assets acquired as well as operating advances were incorrectly recorded. The adjustments increased the February 28, 2017 net position balance by \$4,676,279, from a deficit of \$4,705,509 to a deficit of \$29,230.

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B

REQUIRED SUPPLEMENTARY INFORMATION

FEBRUARY 28, 2018

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 490,392	\$ 696,344	\$ 205,952
Water Service	454,554	448,462	(6,092)
Wastewater Service	390,592	384,918	(5,674)
Fire Protection Service	70,984	69,290	(1,694)
Franchise Fees	35,258	45,974	10,716
Penalty and Interest	9,462	15,188	5,726
Permit Fees	26,000	11,000	(15,000)
Miscellaneous Revenues	<u>8,002</u>	<u>28,452</u>	<u>20,450</u>
TOTAL REVENUES	<u>\$ 1,485,244</u>	<u>\$ 1,699,628</u>	<u>\$ 214,384</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 104,040	\$ 102,024	\$ 2,016
Contracted Services	385,672	407,129	(21,457)
Purchased Water Service	580,912	532,466	48,446
Purchased Wastewater Service	193,604	172,691	20,913
Repairs and Maintenance	12,840	11,285	1,555
Other	<u>26,762</u>	<u>27,726</u>	<u>(964)</u>
TOTAL EXPENDITURES	<u>\$ 1,303,830</u>	<u>\$ 1,253,321</u>	<u>\$ 50,509</u>
NET CHANGE IN FUND BALANCE	\$ 181,414	\$ 446,307	\$ 264,893
FUND BALANCE - MARCH 1, 2017	<u>853,067</u>	<u>853,067</u>	<u> </u>
FUND BALANCE - FEBRUARY 28, 2018	<u>\$ 1,034,481</u>	<u>\$ 1,299,374</u>	<u>\$ 264,893</u>

See accompanying independent auditor's report.

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

FEBRUARY 28, 2018

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
SERVICES AND RATES
FOR THE YEAR ENDED FEBRUARY 28, 2018**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved June 27, 2017.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 24.00	-0-	N	\$ 3.50	0,001 to 10,000
				\$ 4.50	10,001 and up
WASTEWATER:	\$ 44.00	10,000	Y		
	\$ 46.00	Over 10,000	Y		
SURCHARGE:					
Fire Protection Services Fee Commission	\$8.00 per residential connection				
Regulatory Assessments	0.5% of actual water and sewer bill				

District employs winter averaging for wastewater usage?
 X
 Yes No

Total monthly charges per 10,000 gallons usage: Water: \$59.00 Wastewater: \$44.00 Surcharge: \$8.52

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
SERVICES AND RATES
FOR THE YEAR ENDED FEBRUARY 28, 2018**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>748</u>	<u>744</u>	x 1.0	<u>744</u>
1"	<u>6</u>	<u>6</u>	x 2.5	<u>15</u>
1½"			x 5.0	
2"	<u>3</u>	<u>3</u>	x 8.0	<u>24</u>
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>757</u></u>	<u><u>753</u></u>		<u><u>783</u></u>
Total Wastewater Connections	<u><u>746</u></u>	<u><u>746</u></u>	x 1.0	<u><u>746</u></u>

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

Gallons billed to customers: 64,765,000 Water Accountability Ratio: (1)

Gallons purchased: (1)

(1) The District is part of an integrated water system with Denton County Fresh Water Supply District Nos. 8-A, 8-B, 11-A and 11-C. The districts purchase water from the Upper Trinity Regional Water District.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
SERVICES AND RATES
FOR THE YEAR ENDED FEBRUARY 28, 2018**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Denton County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

Town of Little Elm, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED FEBRUARY 28, 2018**

PROFESSIONAL FEES:	
Auditing	\$ 16,900
Engineering	12,634
Legal	<u>72,490</u>
TOTAL PROFESSIONAL FEES	<u>\$ 102,024</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 532,466
Purchased Wastewater Service	<u>172,691</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 705,157</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 3,937
Bookkeeping	17,350
Operations and Billing	189,165
Security	27,897
Tax Collector	<u>5,825</u>
TOTAL CONTRACTED SERVICES	<u>\$ 244,174</u>
UTILITIES	<u>\$ 1,594</u>
REPAIRS AND MAINTENANCE	<u>\$ 11,285</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 6,750
Insurance	5,184
Legal Notices	1,150
Travel and Meetings	1,086
Regulatory Assessment	4,099
Other	<u>6,120</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 24,389</u>
TAP CONNECTIONS	<u>\$ 1,743</u>
SOLID WASTE DISPOSAL	<u>\$ 98,470</u>
FIRE FIGHTING	<u>\$ 64,485</u>
TOTAL EXPENDITURES	<u>\$ 1,253,321</u>

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
INVESTMENTS
FEBRUARY 28, 2018

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
LOGIC	XXXX4001	Vaires	Daily	\$ 302,656	\$
Certificate of Deposit	XXXX1554	1.00%	02/16/19	<u>249,543</u>	<u>278</u>
TOTAL GENERAL FUND				<u>\$ 552,199</u>	<u>\$ 278</u>
<u>DEBT SERVICE FUND</u>					
LOGIC	XXXX4002	Vaires	Daily	\$ 353,122	\$
Certificate of Deposit	XXXX4173	0.80%	05/04/18	<u>150,000</u>	<u>302</u>
TOTAL DEBT SERVICE FUND				<u>\$ 503,122</u>	<u>\$ 302</u>
<u>CAPITAL PROJECTS FUND</u>					
Certificate of Deposit	XXXX0001	0.50%	05/17/18	\$ 100,252	\$ 126
Certificate of Deposit	XXXX5734	1.07%	02/19/19	<u>150,000</u>	<u>132</u>
TOTAL CAPITAL PROJECTS FUND				<u>\$ 250,252</u>	<u>\$ 258</u>
TOTAL - ALL FUNDS				<u>\$ 1,305,573</u>	<u>\$ 838</u>

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED FEBRUARY 28, 2018

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
MARCH 1, 2017	\$	4,091	\$	7,273
Adjustments to Beginning				
Balance		<u>19,511</u>	\$	<u>20,154</u>
Original 2017 Tax Levy	\$	667,279	\$	878,856
Adjustment to 2017 Tax Levy		<u>9,861</u>	<u>677,140</u>	<u>891,843</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	700,742	\$
				911,997
TAX COLLECTIONS:				
Prior Years	\$	23,602	\$	20,154
Current Year		<u>672,742</u>	<u>696,344</u>	<u>886,050</u>
				<u>906,204</u>
TAXES RECEIVABLE -				
FEBRUARY 28, 2018		<u>\$</u>	<u>4,398</u>	<u>\$</u>
				<u>5,793</u>
TAXES RECEIVABLE BY				
YEAR:				
2017		<u>\$</u>	<u>4,398</u>	<u>\$</u>
				<u>5,793</u>

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED FEBRUARY 28, 2018**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PROPERTY VALUATIONS	\$ <u>165,156,098</u>	\$ <u>141,756,239</u>	\$ <u>110,256,806</u>	\$ <u>63,426,836</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.54	\$ 0.64	\$ 0.61	\$ 0.53
Maintenance	<u>0.41</u>	<u>0.36</u>	<u>0.39</u>	<u>0.47</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.95</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
ADJUSTED TAX LEVY*	<u>\$ 1,568,983</u>	<u>\$ 1,417,562</u>	<u>\$ 1,102,569</u>	<u>\$ 634,268</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.35 %</u>	<u>100.00 %</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 of an unlimited amount per \$100 of assessed valuation approved by voters on May 12, 2007.

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 28, 2018

S E R I E S - 2 0 1 1 - R O A D			
Due During Fiscal Years Ending February 28/29	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$ 60,000	\$ 121,283	\$ 181,283
2020	65,000	118,884	183,884
2021	70,000	116,218	186,218
2022	70,000	113,244	183,244
2023	75,000	110,181	185,181
2024	80,000	106,806	186,806
2025	85,000	103,106	188,106
2026	90,000	98,963	188,963
2027	95,000	94,462	189,462
2028	100,000	89,713	189,713
2029	110,000	84,712	194,712
2030	115,000	79,213	194,213
2031	120,000	73,463	193,463
2032	130,000	67,462	197,462
2033	135,000	60,638	195,638
2034	145,000	53,550	198,550
2035	155,000	45,938	200,938
2036	165,000	37,800	202,800
2037	175,000	29,138	204,138
2038	185,000	19,950	204,950
2039	195,000	10,237	205,237
2040			
2041			
	\$ 2,420,000	\$ 1,634,961	\$ 4,054,961

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 28, 2018

S E R I E S - 2 0 1 4				
Due During Fiscal Years Ending February 28/29	Principal Due September 1	Interest Due March 1/ September 1	Total	
2019	\$ 55,000	\$ 75,796	\$	130,796
2020	60,000	74,422		134,422
2021	60,000	72,921		132,921
2022	65,000	71,181		136,181
2023	65,000	69,166		134,166
2024	70,000	67,086		137,086
2025	75,000	64,812		139,812
2026	75,000	62,262		137,262
2027	80,000	59,562		139,562
2028	85,000	56,562		141,562
2029	90,000	53,288		143,288
2030	90,000	49,688		139,688
2031	95,000	45,998		140,998
2032	100,000	42,008		142,008
2033	105,000	37,758		142,758
2034	110,000	33,244		143,244
2035	115,000	28,432		143,432
2036	120,000	23,400		143,400
2037	125,000	18,000		143,000
2038	135,000	12,375		147,375
2039	140,000	6,300		146,300
2040				
2041				
	\$ 1,915,000	\$ 1,024,261	\$	2,939,261

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 28, 2018

S E R I E S - 2 0 1 4 R O A D				
Due During Fiscal Years Ending February 28/29	Principal Due September 1	Interest Due March 1/ September 1	Total	
2019	\$ 60,000	\$ 76,262	\$	136,262
2020	60,000	75,062		135,062
2021	65,000	73,741		138,741
2022	65,000	72,116		137,116
2023	70,000	70,327		140,327
2024	70,000	68,228		138,228
2025	75,000	65,954		140,954
2026	80,000	63,404		143,404
2027	80,000	60,604		140,604
2028	85,000	57,804		142,804
2029	90,000	54,744		144,744
2030	95,000	51,414		146,414
2031	100,000	47,850		147,850
2032	100,000	44,100		144,100
2033	105,000	40,202		145,202
2034	110,000	36,106		146,106
2035	115,000	31,816		146,816
2036	120,000	27,216		147,216
2037	125,000	22,416		147,416
2038	135,000	17,292		152,292
2039	140,000	11,756		151,756
2040	145,000	5,982		150,982
2041				
	\$ 2,090,000	\$ 1,074,396	\$	3,164,396

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 28, 2018

S E R I E S - 2 0 1 5 R O A D				
Due During Fiscal Years Ending February 28/29	Principal Due September 1	Interest Due March 1/ September 1	Total	
2019	\$ 85,000	\$ 110,489	\$	195,489
2020	85,000	108,789		193,789
2021	90,000	107,089		197,089
2022	95,000	105,289		200,289
2023	100,000	103,151		203,151
2024	105,000	100,651		205,651
2025	110,000	97,764		207,764
2026	110,000	94,464		204,464
2027	115,000	90,944		205,944
2028	125,000	87,264		212,264
2029	130,000	83,014		213,014
2030	135,000	78,594		213,594
2031	140,000	73,734		213,734
2032	145,000	68,693		213,693
2033	155,000	63,256		218,256
2034	160,000	57,444		217,444
2035	165,000	51,244		216,244
2036	175,000	44,850		219,850
2037	180,000	38,068		218,068
2038	190,000	31,093		221,093
2039	200,000	23,969		223,969
2040	210,000	16,468		226,468
2041	215,000	8,331		223,331
	\$ 3,220,000	\$ 1,644,652	\$	4,864,652

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 28, 2018

S E R I E S - 2 0 1 6			
Due During Fiscal Years Ending February 28/29	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$ 95,000	\$ 81,020	\$ 176,020
2020	100,000	79,975	179,975
2021	100,000	77,975	177,975
2022	105,000	75,975	180,975
2023	110,000	73,875	183,875
2024	110,000	71,675	181,675
2025	115,000	69,475	184,475
2026	120,000	67,175	187,175
2027	125,000	64,775	189,775
2028	130,000	62,275	192,275
2029	135,000	59,513	194,513
2030	140,000	56,644	196,644
2031	145,000	53,319	198,319
2032	150,000	49,875	199,875
2033	155,000	46,125	201,125
2034	160,000	42,250	202,250
2035	165,000	38,250	203,250
2036	170,000	33,300	203,300
2037	175,000	28,200	203,200
2038	180,000	22,950	202,950
2039	190,000	17,550	207,550
2040	195,000	11,850	206,850
2041	200,000	6,000	206,000
	\$ 3,270,000	\$ 1,190,021	\$ 4,460,021

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
LONG-TERM DEBT SERVICE REQUIREMENTS
FEBRUARY 28, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending February 28/29	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 355,000	\$ 464,850	\$ 819,850
2020	370,000	457,132	827,132
2021	385,000	447,944	832,944
2022	400,000	437,805	837,805
2023	420,000	426,700	846,700
2024	435,000	414,446	849,446
2025	460,000	401,111	861,111
2026	475,000	386,268	861,268
2027	495,000	370,347	865,347
2028	525,000	353,618	878,618
2029	555,000	335,271	890,271
2030	575,000	315,553	890,553
2031	600,000	294,364	894,364
2032	625,000	272,138	897,138
2033	655,000	247,979	902,979
2034	685,000	222,594	907,594
2035	715,000	195,680	910,680
2036	750,000	166,566	916,566
2037	780,000	135,822	915,822
2038	825,000	103,660	928,660
2039	865,000	69,812	934,812
2040	550,000	34,300	584,300
2041	415,000	14,331	429,331
	<u>\$ 12,915,000</u>	<u>\$ 6,568,291</u>	<u>\$ 19,483,291</u>

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED FEBRUARY 28, 2018**

Description	Original Bonds Issued	Bonds Outstanding March 1, 2017
Denton County Fresh Water Supply District No. 11-B Unlimited Tax Road Bonds - Series 2011	\$ 2,675,000	\$ 2,475,000
Denton County Fresh Water Supply District No. 11-B Unlimited Tax Bonds - Series 2014	2,020,000	1,970,000
Denton County Fresh Water Supply District No. 11-B Unlimited Tax Road Bonds - Series 2014	2,200,000	2,145,000
Denton County Fresh Water Supply District No. 11-B Unlimited Tax Road Bonds - Series 2015	3,375,000	3,300,000
Denton County Fresh Water Supply District No. 11-B Unlimited Tax Bonds - Series 2016	<u>3,370,000</u>	<u>3,370,000</u>
TOTAL	<u>\$ 13,640,000</u>	<u>\$ 13,260,000</u>

Bond Authority:	Utility Bonds	Road Bonds
Amount Authorized by Voters	\$ 25,600,000	\$ 29,500,000
Amount Issued	<u>5,390,000</u>	<u>8,250,000</u>
Remaining to be Issued	<u>\$ 20,210,000</u>	<u>\$ 21,250,000</u>

Debt Service Fund cash, investments and cash with paying agent balances as of
February 28, 2018: \$ 1,542,337

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 847,100

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding February 28, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 55,000	\$ 123,484	\$ 2,420,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	55,000	77,172	1,915,000	Amegy Bank, N.A. Houston, TX
	55,000	77,362	2,090,000	Amegy Bank, N.A. Houston, TX
	80,000	112,089	3,220,000	Amegy Bank, N.A. Houston, TX
	<u>100,000</u>	<u>77,463</u>	<u>3,270,000</u>	Amegy Bank, N.A. Houston, TX
<u>\$ - 0 -</u>	<u>\$ 345,000</u>	<u>\$ 467,570</u>	<u>\$ 12,915,000</u>	
<u>Utility Refunding Bonds</u>	<u>Road Refunding Bonds</u>			
\$ 25,600,000	\$ 29,500,000			
<u>\$ 25,600,000</u>	<u>\$ 29,500,000</u>			

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 696,344	\$ 512,037	\$ 433,050
Water Service	448,462	415,211	417,882
Wastewater Service	384,918	374,639	350,830
Fire Protection Service	69,290	67,441	61,005
Franchise Fees	45,974	42,745	38,280
Penalty and Interest	15,188	8,147	19,623
Permit Fees	11,000	23,000	142,000
Miscellaneous Revenues	28,452	18,395	22,993
TOTAL REVENUES	\$ 1,699,628	\$ 1,461,615	\$ 1,485,663
EXPENDITURES			
Professional Fees	\$ 102,024	\$ 90,060	\$ 118,907
Contracted Services	407,129	394,240	333,119
Purchase Water Service	532,466	557,337	531,866
Purchase Wastewater Service	172,691	165,066	162,039
Repairs and Maintenance	11,285	9,586	12,752
Other	27,726	29,845	55,225
TOTAL EXPENDITURES	\$ 1,253,321	\$ 1,246,134	\$ 1,213,908
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 446,307	\$ 215,481	\$ 271,755
OTHER FINANCING SOURCES (USES)			
Developer Advances	\$	\$	\$
Transfer In		21,221	
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ 21,221	\$ -0-
NET CHANGE IN FUND BALANCE	\$ 446,307	\$ 236,702	\$ 271,755
BEGINNING FUND BALANCE (DEFICIT)	853,067	616,365	344,610
ENDING FUND BALANCE	\$ 1,299,374	\$ 853,067	\$ 616,365

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 295,090	\$ 247,239	41.0 %	35.0 %	29.2 %	25.4 %	31.7 %
361,793	181,729	26.4	28.4	28.1	31.1	23.3
215,291	138,031	22.6	25.6	23.6	18.5	17.7
43,031	25,974	4.1	4.6	4.1	3.7	3.3
26,110	12,878	2.7	2.9	2.6	2.2	1.7
14,166	10,165	0.9	0.6	1.3	1.2	1.3
186,500	156,500	0.6	1.6	9.6	16.0	20.1
22,519	7,705	1.7	1.3	1.5	1.9	0.9
<u>\$ 1,164,500</u>	<u>\$ 780,221</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 90,772	\$ 93,085	6.0 %	6.2 %	8.0 %	7.8 %	11.9 %
225,268	135,991	24.0	27.0	22.4	19.3	17.4
495,814	462,818	31.3	38.1	35.8	42.6	59.3
112,879	86,214	10.2	11.3	10.9	9.7	11.0
11,889	11,046	0.7	0.7	0.9	1.0	1.4
89,726	65,509	1.6	2.0	3.7	7.7	8.4
<u>\$ 1,026,348</u>	<u>\$ 854,663</u>	<u>73.8 %</u>	<u>85.3 %</u>	<u>81.7 %</u>	<u>88.1 %</u>	<u>109.4 %</u>
<u>\$ 138,152</u>	<u>\$ (74,442)</u>	<u>26.2 %</u>	<u>14.7 %</u>	<u>18.3 %</u>	<u>11.9 %</u>	<u>(9.4) %</u>
\$	\$ 384,553					
<u>\$ -0-</u>	<u>\$ 384,553</u>					
\$ 138,152	\$ 310,111					
206,458	(103,653)					
<u>\$ 344,610</u>	<u>\$ 206,458</u>					

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 920,121	\$ 676,855	\$ 335,925
Miscellaneous Revenues	<u>5,281</u>	<u>2,248</u>	<u>1,691</u>
TOTAL REVENUES	<u>\$ 925,402</u>	<u>\$ 679,103</u>	<u>\$ 337,616</u>
EXPENDITURES			
Debt Service Principal	\$ 345,000	\$ 235,000	\$ 50,000
Debt Service Interest, Fees and Expenditures	<u>469,935</u>	<u>398,245</u>	<u>313,523</u>
TOTAL EXPENDITURES	<u>\$ 814,935</u>	<u>\$ 633,245</u>	<u>\$ 363,523</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 110,467</u>	<u>\$ 45,858</u>	<u>\$ (25,907)</u>
OTHER FINANCING SOURCES (USES)			
Transfer from Other Governmental Entity	\$ 126,777	\$	\$
Proceeds from Issuance of Long-Term Debt	<u></u>	<u></u>	<u>56,794</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 126,777</u>	<u>\$ -0-</u>	<u>\$ 56,794</u>
NET CHANGE IN FUND BALANCE	\$ 237,244	\$ 45,858	\$ 30,887
BEGINNING FUND BALANCE	<u>411,429</u>	<u>365,571</u>	<u>334,684</u>
ENDING FUND BALANCE	<u>\$ 648,673</u>	<u>\$ 411,429</u>	<u>\$ 365,571</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>753</u>	<u>743</u>	<u>696</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>746</u>	<u>739</u>	<u>692</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 158,156	\$ 139,109	99.4 %	99.7 %	99.5 %	99.2 %	99.5 %
<u>1,282</u>	<u>708</u>	<u>0.6</u>	<u>0.3</u>	<u>0.5</u>	<u>0.8</u>	<u>0.5</u>
\$ <u>159,438</u>	\$ <u>139,817</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0</u>	<u>100.0</u>
\$ 50,000	\$ 45,000	37.3 %	34.6 %	14.8 %	31.4 %	32.2 %
<u>132,705</u>	<u>138,465</u>	<u>50.8</u>	<u>58.6</u>	<u>92.9</u>	<u>83.2</u>	<u>99.0</u>
\$ <u>182,705</u>	\$ <u>183,465</u>	<u>88.1 %</u>	<u>93.2 %</u>	<u>107.7 %</u>	<u>114.6 %</u>	<u>131.2 %</u>
\$ <u>(23,267)</u>	\$ <u>(43,648)</u>	<u>11.9 %</u>	<u>6.8 %</u>	<u>(7.7) %</u>	<u>(14.6) %</u>	<u>(31.2) %</u>
\$	\$					
<u>235,555</u>	<u> </u>					
\$ <u>235,555</u>	\$ <u>-0-</u>					
\$ 212,288	\$ (43,648)					
<u>122,396</u>	<u>166,044</u>					
\$ <u>334,684</u>	\$ <u>122,396</u>					
<u>603</u>	<u>383</u>					
<u>599</u>	<u>377</u>					

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
FEBRUARY 28, 2018**

District Mailing Address - Denton County Fresh Water Supply District No. 11-B
c/o Crawford & Jordan LLP
19 Briar Hollow Lane, Suite 245
Houston, TX 77027

District Telephone Number - (713) 621-3707

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>February 28, 2018</u>	Expense Reimbursements for the year ended <u>February 28, 2018</u>	<u>Title</u>
Jennifer Kleppe	05/14 05/18 (Elected)	\$ 1,500	\$ 299	President
Brook Kailey	05/14 05/18 (Elected)	\$ 750	\$ 161	Vice President
Elisabeth Nye	05/16 05/20 (Elected)	\$ 1,350	\$ 330	Secretary
Kevin Youngblood	08/16 05/18 (Appointed)	\$ 1,800	\$ -0-	Assistant Secretary
Andrea Lagusis	05/16 05/20 (Elected)	\$ 1,350	\$ 295	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
August 22, 2016.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on April 21, 2005. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 11-B
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
FEBRUARY 28, 2018**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended February 28, 2018</u>	<u>Title</u>
Crawford & Jordan LLP	11/11/03	\$ 71,040	General Counsel
McCall Gibson Swedlund Barfoot PLLC	09/15/05	\$ 16,900 \$ -0-	Auditor Bond Related
McCall, Parkhurst & Horton, LLP	11/11/03	\$ -0-	Bond Counsel
Kathi Dye & Associates, LLC	07/20/06	\$ 17,380	Bookkeeper
Petitt Barraza LLC	10/13/03	\$ 12,634	Engineer
Robert W. Baird & Co. Incorporated	02/17/15	\$ -0-	Financial Advisor
Mustang Special Utility District	06/18/01	\$ 190,909	Operator

See accompanying independent auditor's report.

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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