

OFFICIAL STATEMENT DATED AUGUST 19, 2019

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

The District has not designated the Bonds as "qualified tax-exempt obligations" for financial institutions. See "NOT QUALIFIED TAX-EXEMPT OBLIGATIONS."

NEW ISSUE – Book Entry Only

S&P (BAM Insured)..... "AA"
See "MUNICIPAL BOND INSURANCE."

\$9,395,000

MORNINGSTAR RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF PARKER COUNTY

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

UNLIMITED TAX UTILITY BONDS

SERIES 2019

Interest accrues from: September 1, 2019

Due: September 1, as shown on inside cover hereof

The \$9,395,000 Unlimited Tax Utility Bonds, Series 2019 (the "Bonds"), are obligations of Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District") and are not obligations of the State of Texas; Parker County, Texas; the City of Fort Worth, Texas; or any entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Parker County, Texas; the City of Fort Worth, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Zions Bancorporation, National Association, Houston, Texas, or any successor paying agent/registrant (the "Paying Agent/Registrant"), 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/Registrant upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds accrues from September 1, 2019, is payable on March 1, 2020, and each September 1 and March 1 thereafter to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date. Unless otherwise agreed between the Paying Agent/Registrant and a Bondholder, such interest is payable by check mailed to such persons or by other means acceptable to such person and the Paying Agent/Registrant. The Bonds are issuable in denominations of \$5,000 of principal or any integral multiple thereof in fully registered form only.

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

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

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



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

The Bonds are offered subject to prior sale, when, as, and if issued by the District and accepted by the winning bidder for the Bonds (the "Initial Purchaser"), subject to the approval of the Attorney General of Texas and of Coats Rose, P.C., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as Disclosure Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about September 17, 2019. See "LEGAL MATTERS."

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

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$235,000	4.500%	1.250%	61771K CZ5	2033 (c)	\$375,000	2.125%	2.350%	61771K DN1
2021	245,000	4.500%	1.300%	61771K DA9	2034 (c)	390,000	2.250%	2.450%	61771K DP6
2022	250,000	4.500%	1.350%	61771K DB7	2035 (c)	405,000	2.375%	2.520%	61771K DQ4
2023	260,000	4.500%	1.400%	61771K DC5	2036 (c)	420,000	2.375%	2.560%	61771K DR2
2024	270,000	4.500%	1.450%	61771K DD3	2037 (c)	435,000	2.375%	2.600%	61771K DS0
2025 (c)	280,000	3.250%	1.550%	61771K DE1	2038 (c)	455,000	2.500%	2.640%	61771K DT8
2026 (c)	290,000	2.000%	1.650%	61771K DF8	2039 (c)	470,000	2.500%	2.680%	61771K DU5
2027 (c)	300,000	2.000%	1.750%	61771K DG6	2040 (c)	485,000	2.500%	2.720%	61771K DV3
2028 (c)	315,000	2.000%	1.850%	61771K DH4	2041 (c)	505,000	2.625%	2.750%	61771K DW1
2029 (c)	325,000	2.000%	1.950%	61771K DJ0	2042 (c)	525,000	3.000%	2.770%	61771K DX9
2030 (c)	335,000	2.000%	2.050%	61771K DK7	2043 (c)	545,000	3.000%	2.800%	61771K DY7
2031 (c)	350,000	2.000%	2.150%	61771K DL5	2044 (c)	565,000	3.000%	2.820%	61771K DZ4
2032 (c)	365,000	2.000%	2.250%	61771K DM3					

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2025, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest thereon to the date fixed for redemption. See "THE BONDS – Redemption Provisions."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Robert W. Baird & Co. Incorporated, 1331 Lamar Street, Suite 1360, Houston, Texas 77010, the Financial Advisor to the District.

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

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement.

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

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 97.000000% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.789709%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

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

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

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

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

Securities Laws

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

Delivery of Official Statements

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

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$525 million, \$114 million and \$411 million, respectively.

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

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

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure

contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under this heading "MUNICIPAL BOND INSURANCE."

Additional Information Available from BAM

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

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

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

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

MUNICIPAL BOND RATING

The Bonds are expected to receive an insured rating of "AA" from S&P solely in reliance upon the issuance of the Policy issued by BAM at the time of the delivery of the Bonds. 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). Furthermore, a security rating is not a recommendation to buy, sell, or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

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

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The District.....Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District"), a political subdivision of the State of Texas, is located in Parker County, Texas. See "THE DISTRICT."

The Bonds.....The District's \$9,395,000 Unlimited Tax Utility Bonds, Series 2019 (the "Bonds"), are dated September 1, 2019, and mature on September 1 in the years and in the principal amounts as shown on the inside cover page hereof. Interest on the Bonds accrues from September 1, 2019, at the rates shown on the inside cover hereof and is payable on March 1, 2020, and on each September 1 and March 1 thereafter until maturity or prior redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 of principal amount for any one maturity. See "THE BONDS - General."

Redemption.....The Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or in part, on September 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See "THE BONDS - Redemption Provisions."

Authority for Issuance.....At an election held within the District on November 3, 2009, voters of the District authorized the District's issuance of a total of \$73,000,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, or maintaining water, sewer, and drainage facilities to serve the District (the "Utility System"). The Bonds represent the District's second series of unlimited tax bonds to be issued from such voted authorization for the Utility System.

The Bonds are issued as authorized by the following: an order of the Texas Commission on Environmental Quality ("TCEQ") dated June 6, 2019, approving the District's issuance of the Bonds; an order adopted by the Board of Directors of the District authorizing the issuance of the Bonds (the "Bond Order"); and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution; and an election held within the District on November 3, 2009, as referenced above. See "THE BONDS - Authority for Issuance."

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

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

Outstanding Bonds The District has previously issued three series of unlimited tax bonds, two of which for the purpose of purchasing, constructing, acquiring, or maintaining a road system serving the District (the “Road System”) and one for the purpose of purchasing, constructing, acquiring, or maintaining the Utility System, as follows: \$2,850,000 Unlimited Tax Road Bonds, Series 2017; \$5,960,000 Unlimited Tax Utility Bonds, Series 2018; and \$1,140,000 Unlimited Tax Road Bonds, Series 2018. As of August 1, 2019, all \$9,950,000 principal amount remains outstanding (the “Outstanding Bonds”).

Short-Term Debt..... In connection with the Bonds, the District has issued its \$5,020,000 Bond Anticipation Note, Series 2019, dated January 10, 2019 (the “BAN”), and distributed proceeds from sale of the BAN as described below. The BAN accrues interest at a rate of 2.70% per year (computed on the basis of a 360-day year) and matures on January 9, 2020, unless called for redemption prior to maturity.

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

Not Qualified Tax-Exempt Obligations The District has not designated the Bonds as “qualified tax-exempt obligations” pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended. See “NOT QUALIFIED TAX-EXEMPT OBLIGATIONS.”

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

Ratings S&P (BAM Insured): “AA.” See “MUNICIPAL BOND RATING” above.

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

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

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

Paying Agent/Registrar Zions Bancorporation, National Association, Houston, Texas.

THE DISTRICT

Description..... The District is a political subdivision of the State of Texas located in Parker County, Texas, approximately 4 miles north of the City of Aledo, Texas, approximately 15 miles west of the City of Fort Worth, Texas, and wholly within the extraterritorial jurisdiction of the City of Fort Worth, Texas. The District is bordered on the north by Morningstar Ranch Municipal Utility District No. 2 of Parker County (“MUD 2”); on the west by MUD 2 and Farmer Road; and on the south by Old Weatherford Road. The District is located in the boundaries of Aledo Independent School District. See “THE DISTRICT.”

Authority.....The District was created by order of the TCEQ dated August 3, 2009, and is vested with all of the rights, duties, powers, privileges, authority, and functions conferred by the TCEQ and the general laws of the State of Texas relating to municipal utility districts, including, without limitation, those conferred by Section 54.234 of the Texas Water Code, which authorize the District to finance certain major thoroughfares, arterial, and feeder roads under the authority of Section 52 of Article III of the Texas Constitution. See “THE DISTRICT.”

Development Within the District.....The District comprises approximately 552 total acres of land. To date, approximately 910 single-family lots have been developed as the residential subdivisions of Morningstar, Sections 5-1, 5-2, 5-3, 6-1, 6-2, 6-3, 6-4, 7-1, 7-2, 8-1, 8-2, and 10-2. As of June 15, 2019, such single-family residential development in the District included approximately 499 completed homes (approximately 430 of which being occupied, 63 unoccupied, and 6 model homes), approximately 21 homes under construction, and approximately 390 developed but vacant lots. In addition, the following two subdivisions are currently under construction: Morningstar Section 8, Phase 3, is under construction for the development of 79 single-family lots and Morningstar Section 8, Phase 4, is under construction for the development of 87 single-family lots. The subdivisions referenced above encompass approximately 268 acres including lands for residential lots, road rights-of-way, an amenity center, and open spaces. The remaining land in the District consists of approximately 29 undeveloped acres dedicated to development of a school and commercial property, approximately 153 undeveloped but developable acres, and approximately 102 undevelopable acres. See “DEVELOPMENT STATUS OF THE DISTRICT” and “MORNINGSTAR.”

Morningstar.....The District is part of the 737-acre, master-planned community known as “Morningstar.” Morningstar is located along Interstate 20 and includes amenities such as a clubhouse with resort-style pools, cabanas, play yards, and a lakeside amphitheater. Morningstar also offers its residents miles of hike and bike trails, open green spaces, and a community center. Two municipal utility districts encompass Morningstar: the District and MUD 2. To date, development in Morningstar has occurred exclusively in the District. See “MORNINGSTAR.”

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

FACTORS – Economic Factors Affecting Taxable Values and Tax Payments.”

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

Regional FacilitiesWater supply and wastewater treatment is provided by the City of Fort Worth, Texas, pursuant to that certain Utility Agreement for Morningstar. See “THE SYSTEMS.”

Development Agreement.....Land within Morningstar is being developed pursuant to the terms of a Development Agreement entered into between the City of Fort Worth, Texas, and the initial owners of land in the District and MUD 2, as amended from time to time. See “THE DISTRICT – Development Agreement.”

RISK FACTORS

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

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SELECTED FINANCIAL INFORMATION

2019 Taxable Assessed Valuation.....	\$ 136,909,825 (a)
Estimated Valuation as of June 15, 2019	\$ 166,980,000 (b)
Direct Debt:	
The Outstanding Bonds (as of August 1, 2019).....	\$ 9,950,000
The Bonds	<u>\$ 9,395,000</u>
Total.....	\$ 19,345,000
Estimated Overlapping Debt	<u>\$ 6,528,150 (c)</u>
Total Direct and Estimated Overlapping Debt	\$ 25,873,150 (c)
Direct Debt Ratios:	
Based on the 2019 Taxable Assessed Valuation	14.13 %
Based on the Estimated Valuation as of June 15, 2019.....	11.59 %
Direct and Estimated Overlapping Debt Ratios:	
Based on the 2019 Taxable Assessed Valuation	18.90 %
Based on the Estimated Valuation as of June 15, 2019.....	15.49 %
Utility System Debt Service Fund Balance (as of July 22, 2019)	\$419,370 (d)
Road System Debt Service Fund Balance (as of July 22, 2019).....	\$206,011 (e)
Operating Fund Balance (as of July 22, 2019).....	\$317,997
2019 Tax Rate	
Combined Debt Service.....	\$0.70 (f)
Maintenance & Operation	<u>\$0.30</u>
Total.....	\$1.00
Average Annual Debt Service Requirement (2020–2044)	\$1,127,770 (g)
Maximum Annual Debt Service Requirement (2042).....	\$1,234,956 (g)
Combined Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Requirement (2020–2044) at 95% Tax Collections	
Based on the 2019 Taxable Assessed Valuation.....	\$0.87
Based on the Estimated Valuation as of June 15, 2019.....	\$0.72
Combined Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Requirement (2042) at 95% Tax Collections	
Based on the 2019 Taxable Assessed Valuation.....	\$0.95
Based on the Estimated Valuation as of June 15, 2019.....	\$0.78

- (a) Represents the taxable assessed value of all taxable property within the District as of January 1, 2019, as provided by the Parker County Appraisal District upon original certification of its 2019 tax rolls. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Parker County Appraisal District for information purposes only. This estimate reflects the addition of taxable value resulting from new construction within the District from January 1, 2019, to June 15, 2019, and is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt Statement."
- (d) In addition to this amount, twelve (12) months of capitalized interest on the Bonds will be deposited into the Utility System Debt Service Fund upon delivery of the Bonds. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Road System.
- (e) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Road System Debt Service Fund. Funds in the Road System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Utility System (e.g., the Bonds).
- (f) For the 2019 tax year, the District's total tax rate for debt service is composed of a tax in the amount of \$0.54 for payment of debt service on bonds issued for the Utility System and a tax in the amount of \$0.16 for payment of debt service on bonds issued for the Road System. The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Utility System and for payment of debt service on bonds issued for the Road System; both such taxes are unlimited as to rate or amount.
- (g) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District") of its \$9,395,000 Unlimited Tax Utility Bonds, Series 2019 (the "Bonds").

The Bonds are issued by the District pursuant to: an order of the Texas Commission on Environmental Quality ("TCEQ") dated June 6, 2019; an order adopted by the Board of Directors of the District authorizing the issuance of the Bonds (the "Bond Order"); an election held within the District on November 3, 2009; and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order.

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

RISK FACTORS

General

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

Economic Factors Affecting Taxable Values and Tax Payments

The rate of development within the District is directly related to the vitality of the single-family residential market in the area surrounding the District. The following entities are either developers of land within the District or principal owners of land in the District: (i) FG Aledo Development, LLC, a Texas limited liability company ("FG Aledo"), managed by KTFW Investments, Inc., a Texas corporation; (ii) FFWF Holdings, Inc., a Texas corporation ("FWFW"), managed by Kim Gill and Timothy Fleet; (iii) Wilbow-Morningstar Development Corporation, a Texas corporation ("Wilbow"), managed by Chas Fitzgerald, Director, William D. Bowness, Director, and Natasha Rose Bowness, Director; and (iv) D.R. Horton-Texas, Ltd., a Texas limited partnership, which is controlled by D.R. Horton, Inc., a Delaware corporation, a publicly traded corporation. FG Aledo and Wilbow are referred to herein collectively as the "Developers." See "THE DEVELOPERS/PRINCIPAL LANDOWNERS." The Developers' ability to successfully market property in the District can be affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of construction would restrict the growth of property values in the District. Although, as of June 15, 2019, approximately 499 single-family homes in the District have been completed and another 21 single-family homes are under construction, the District cannot predict the pace or magnitude of future development, if any, in the District. See "DEVELOPMENT STATUS OF THE DISTRICT."

Developers' Obligations to the District: There is no commitment by or legal requirement of the Developers or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any home builder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction

on any landowner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home or commercial construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See "DEVELOPMENT STATUS OF THE DISTRICT" and "THE DEVELOPERS/PRINCIPAL LANDOWNERS."

Concentration of Tax Base: The District's tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption "TAX DATA – Principal Taxpayers," as of January 1, 2019, the District's ten principal taxpayers owned property located in the District, the aggregate certified assessed valuation of which comprised approximately 16.81% of the District's total certified taxable assessed valuation. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers, or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. See "DEVELOPMENT STATUS OF THE DISTRICT." Failure by one or more of the District's principal property owners to make full and timely payments of taxes due, or a decline in the District's tax base due to a diminution of the property values, may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements.

Maximum Impact on District Tax Rate: Assuming no further development, the value of the land, improvements, and other taxable property currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The taxable assessed valuation as of January 1, 2019, of all taxable property within the District is \$136,909,825, and the estimated valuation as of June 15, 2019, is \$166,980,000. After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds (herein defined) and the Bonds will be \$1,234,956 (2042), and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,127,770 (2020–2044). Assuming no increase nor decrease from the taxable assessed valuation as of January 1, 2019, a tax rate of \$0.95 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement, and a tax rate of \$0.87 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement. Assuming no increase to nor decrease from the estimated valuation as of June 15, 2019, a tax rate of \$0.78 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement, and a tax rate of \$0.72 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement. See "DISTRICT DEBT – Debt Service Requirements." For the 2019 tax year, the District levied a total tax of \$1.00 per \$100 of assessed valuation composed of the following: a tax in the amount of \$0.30 for maintenance and operations; a tax in the amount of \$0.54 for payment of debt service on bonds issued for the Utility System (herein defined); and a tax in the amount of \$0.16 for payment of debt service on bonds issued for the Road System (herein defined).

Competitive Nature of Residential Market. The residential housing industry in and around the City is very competitive, and the District can give no assurance that the building programs which are planned by the Developers will be continued or completed. The competitive position of the Developers and any of the homebuilders are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Tax Collections and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by difficulties in collecting ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures; (b) a bankruptcy court's stay of tax collection proceedings against a taxpayer; or (c)

market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property.

Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "TAX DATA – Estimated Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayer's right to redeem property after foreclosure). Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer.

Bondholders' Remedies

The Bond Order does not provide for the appointment of a trustee to represent the interests of the registered owners of the Bonds (the "Bondholders") upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under the laws of the State of Texas, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. A Bondholder of Bonds could seek a judgment against the District if a default occurred in the payment of principal or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District. A Bondholder's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess, and collect an annual ad valorem tax sufficient to pay principal and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a Bondholder could be required to enforce such remedy on a periodic basis. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State of Texas or a political subdivision of the State of Texas is a party, including the payment of monies due under a contract. The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without United States Bankruptcy Court ("Bankruptcy Court") approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

Bankruptcy Limitation to Bondholders' Rights

Subject to the requirements of state law, the District may voluntarily proceed under Chapter 9. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. The rights and remedies of the Bondholders could be adjusted in accordance with the confirmed plan of adjustment of the District's debt.

Future Debt

The Bonds are the second series of unlimited tax bonds to be issued by the District for the purpose of purchasing, constructing, acquiring, or maintaining water, sewer, and drainage facilities to serve the District

(the "Utility System"). At an election held within the District on November 3, 2009, voters of the District authorized the District's issuance of a total of \$73,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Utility System; a total of \$109,500,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Utility System; a total of \$28,200,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, or maintaining a road system serving the District (the "Road System"); and a total of \$42,300,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Road System.

After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$57,645,000 for purchasing, constructing, acquiring, or maintaining the Utility System; \$109,500,000 for refunding bonds issued by the District for the Utility System; \$24,210,000 for purchasing, constructing, acquiring, or maintaining the Road System; and \$42,300,000 for refunding bonds issued by the District for the Road System.

The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters, approved by the Board of Directors of the District (the "Board") and, under certain circumstances, approved by the TCEQ). In addition, the District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds.

After the issuance of the Bonds, the District will owe the Developers approximately \$4,500,000 for expenditures to construct the Utility System and \$0 for expenditures to construct the Road System. See "DEVELOPMENT STATUS OF THE DISTRICT."

In the fourth quarter of 2019, the District anticipates that it will submit a bond application to the TCEQ for the issuance of its third series of unlimited tax bonds for the Utility System. The District expects to issue such bonds, the principal amount of which has not yet been determined, in 2020. In connection with the application to the TCEQ, the District may issue a bond anticipation note to be redeemed by the 2020 bond issue.

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

Environmental Regulation

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

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

Sanctions against a municipal utility district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in

regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Development Agreement

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

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

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

Potential Impact of Natural Disaster

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

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

Changes in Tax Legislation

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

2019 Legislative Session

The 86th Texas Legislature convened on January 8, 2019 and adjourned on May 27, 2019. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda.

During the 86th Regular Legislative Session, the Texas Legislature passed Senate Bill 2 (“SB 2”), a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the District’s operations and financial condition. SB 2 was signed into law by the Governor on June 12, 2019. See “TAXING PROCEDURES – Rollback of Operation and Maintenance Tax Rate.”

Bond Insurance Risk Factors

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

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

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See “MUNICIPAL BOND INSURANCE.”

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

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

THE BONDS

During the 86th Regular Legislative Session, the Texas Legislature passed Senate Bill 2 (“SB 2”), a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the District’s operations and financial condition. SB 2 was signed into law by the Governor on June 12, 2019. See “TAXING PROCEDURES – Rollback of Operation and Maintenance Tax Rate.”

General

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

The Bonds will mature on September 1 of the years and in principal amounts, and will bear interest from September 1, 2019, at the rates per annum, as set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable March 1, 2020, and thereafter on each September 1 and March 1 until maturity or redemption. The Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity are redeemed, the Paying Agent/Registrar (defined below) shall select the particular Bonds to be redeemed by random selection method.

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

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

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

Book-Entry-Only System

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

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

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

an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Paying Agent/Registrar

The Board has selected Zions Bancorporation, National Association, Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The initial designated payment office for the Bonds is located in Houston, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order.

Any successor paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$50,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the United States Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee.

To the extent possible, new Bonds issued in an exchange or transfer of the Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New

Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See “Book-Entry-Only System” hereinabove for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Mutilated, Lost, Stolen or Destroyed Bonds

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

Authority for Issuance

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

Election Date	Purpose	Amount Authorized	Amount Issued	Remaining Authorized But Unissued
11/3/2009	Road System	\$28,200,000	\$3,990,000	\$24,210,000
11/3/2009	Road System Refunding	\$42,300,000	-0-	\$42,300,000
11/3/2009	Utility System	\$73,000,000	\$15,355,000(a)	\$57,645,000
11/3/2009	Utility System Refunding	\$109,500,000	-0-	\$109,500,000

(a) Includes the Bonds.

The Bonds are issued by the District pursuant to: an order of the TCEQ dated June 6, 2019; the Bond Order; an election held within the District on November 3, 2009; and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code applicable to municipal utility districts created under Section 59 of Article XVI of the Texas Constitution.

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.

Outstanding Bonds

The District has previously issued the following three series of unlimited tax bonds: \$2,850,000 Unlimited Tax Road Bonds, Series 2017; \$5,960,000 Unlimited Tax Utility Bonds, Series 2018; and \$1,140,000 Unlimited Tax Road Bonds, Series 2018. As of August 1, 2019, all \$9,950,000 principal amount remains outstanding (the “Outstanding Bonds”).

Source of Payment

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

Utility Funds

The Bond Order confirms the creation of the Utility Capital Projects Fund (the “Utility Capital Projects Fund”) and the Utility System Debt Service Fund (the “Utility System Debt Service Fund”). Accrued interest as well as twelve (12) months of capitalized interest on the Bonds will be deposited into the Utility System Debt Service Fund upon closing of the Bonds. All remaining proceeds of the Bonds will be deposited in the Utility Capital

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

Road Funds

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

Redemption Provisions

The Bonds maturing on and after September 1, 2025, shall be subject to redemption at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest thereon to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the registered owner of each Bond to be redeemed in whole or in part at the address shown on the Register.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by a random selection method in integral multiples of \$5,000 within any one maturity.

The registered owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Consolidation

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

Defeasance

The Bond Order provides that the District may discharge its obligations to the Bondholders of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place or payment (paying agent) for obligations of the District payable from ad valorem taxes, amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by

the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

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

Issuance of Additional Debt

The District intends to issue additional bonds from its voted authorization. The District's voters total of \$73,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Utility System; a total of \$109,500,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Utility System; a total of \$28,200,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System; and a total of \$42,300,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the Road System.

The Bonds are the second series of unlimited tax bonds to be issued by the District for the purpose of acquiring or constructing the Utility System. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$57,645,000 for purchasing, constructing, acquiring, or maintaining the Utility System; \$109,500,000 for refunding bonds issued by the District for the Utility System; \$24,210,000 for purchasing, constructing, acquiring, or maintaining the Road System; and \$42,300,000 for refunding bonds issued by the District for the Road System. See "THE BONDS – Authority for Issuance."

Any bonds issued by the District must be approved by the Attorney General of Texas. Approval of the TCEQ is not necessary for the issuance of bonds to finance the Road System but is required for the issuance of bonds to finance the Utility System. See "THE DISTRICT – General." In the fourth quarter of 2019, the District anticipates that it will submit a bond application to the TCEQ for the issuance of its third series of unlimited tax bonds for the Utility System. The District expects to issue such bonds in 2020. In connection with the application to the TCEQ, the District may issue a bond anticipation note to be redeemed by the 2020 bond issue.

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

Amendments to the Bond Order

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

Bondholders' Remedies

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

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

relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. See “– Bankruptcy Limitation to Bondholders’ Rights” below.

Bankruptcy Limitation to Bondholders’ Rights

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

If the District decided in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District’s plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Bondholder by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Bondholder’s claim against the District.

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt from Section 49.186 of the Texas Water Code and is applicable to the District:

(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.

(b) A district’s bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations, or investment criteria which apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

Short-Term Debt

In connection with the Bonds, the District has issued its \$5,020,000 Bond Anticipation Note, Series 2019, dated January 10, 2019 (the "BAN"), and distributed proceeds from sale of the BAN as described on the following page hereof. The BAN accrues interest at a rate of 2.70% per year (computed on the basis of a 360-day year) and matures on January 9, 2020, unless called for redemption prior to maturity.

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Use and Distribution of Bond Proceeds

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

Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and the Financial Advisor (each hereinafter defined). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor.

<u>Construction Costs</u>	<u>District's Share</u>
A. Developer Contribution Items	
1. Indigo Sky and Morning Mist	\$ 1,257,982
2. Morningstar Section 5 Phase 1	822,996
3. Morningstar Section 5 Phase 3	1,037,387
4. Morningstar Section 6 Phase 1	545,361
5. Morningstar Section 7 Phase 1	750,650
6. Morningstar Section 8 Phase 1	949,191
7. Morningstar Section 10 Phase 2	323,806
8. Engineering, Testing, and Surveying (Items 1-7)	680,129
9. City of Fort Worth Fees (Items 1, 2, and 4-7)	331,840
10. Storm Water Pollution Prevention Plan (Items 1, 2, and 4-7)	<u>40,437</u>
Total Developer Contribution Items	\$ 6,739,779
B. District Contribution Items	
1. Off-Site Sanitary Sewer	\$ 33,404
2. Off-Site Water Line (WS-4)	<u>220,437</u>
Total District Contribution Items	\$ 253,841
Total Construction Costs	\$ 6,993,620
Less Surplus Funds	<u>115,000</u>
Total Net Construction Costs (72.15% of Bond Issue Requirement)	\$ 6,878,620
<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 202,900
B. Fiscal Agent Fees	187,900
C. Interest	
1. Capitalized Interest (12 Months)	255,155
2. Developer Interest	950,718
3. Bond Anticipation Note Interest	94,125
D. Bond Discount	281,850
E. Bond Issuance Expenses	51,820
F. Bond Anticipation Note Expenses	124,471
G. Bond Application Report Cost	63,488
H. Attorney General Fee (0.10%)	9,395
I. TCEQ Bond Issuance Fee (0.25%)	23,488
J. Contingency	<u>271,070</u>
Total Non-Construction Costs (27.85% of Bond Issue Requirement)	\$ 2,516,380
TOTAL BOND ISSUE REQUIREMENT	\$ 9,395,000

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

DISTRICT DEBT

General

2019 Taxable Assessed Valuation.....	\$ 136,909,825 (a)
Estimated Valuation as of June 15, 2019	\$ 166,980,000 (b)
Direct Debt:	
The Outstanding Bonds (as of August 1, 2019).....	\$ 9,950,000
The Bonds	<u>\$ 9,395,000</u>
Total.....	\$ 19,345,000
Estimated Overlapping Debt	<u>\$ 6,528,150 (c)</u>
Total Direct and Estimated Overlapping Debt	\$ 25,873,150 (c)
Direct Debt Ratios:	
Based on the 2019 Taxable Assessed Valuation	14.13 %
Based on the Estimated Valuation as of June 15, 2019.....	11.59 %
Direct and Estimated Overlapping Debt Ratios:	
Based on the 2019 Taxable Assessed Valuation	18.90 %
Based on the Estimated Valuation as of June 15, 2019.....	15.49 %
Utility System Debt Service Fund Balance (as of July 22, 2019)	\$419,370 (d)
Road System Debt Service Fund Balance (as of July 22, 2019).....	\$206,011 (e)
Operating Fund Balance (as of July 22, 2019).....	\$317,997
2019 Tax Rate	
Combined Debt Service.....	\$0.70 (f)
Maintenance & Operation.....	<u>\$0.30</u>
Total.....	\$1.00
Average Annual Debt Service Requirement (2020–2044)	\$1,127,770 (g)
Maximum Annual Debt Service Requirement (2042).....	\$1,234,956 (g)
Combined Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Requirement (2020–2044) at 95% Tax Collections	
Based on the 2019 Taxable Assessed Valuation.....	\$0.87
Based on the Estimated Valuation as of June 15, 2019.....	\$0.72
Combined Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Requirement (2042) at 95% Tax Collections	
Based on the 2019 Taxable Assessed Valuation.....	\$0.95
Based on the Estimated Valuation as of June 15, 2019.....	\$0.78

- (a) Represents the taxable assessed value of all taxable property within the District as of January 1, 2019, as provided by the Parker County Appraisal District upon original certification of its 2019 tax rolls. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Parker County Appraisal District for information purposes only. This estimate reflects the addition of taxable value resulting from new construction within the District from January 1, 2019, to June 15, 2019, and is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt Statement."
- (d) In addition to this amount, twelve (12) months of capitalized interest on the Bonds will be deposited into the Utility System Debt Service Fund upon delivery of the Bonds. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Road System.
- (e) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Road System Debt Service Fund. Funds in the Road System Debt Service Fund are not available to pay debt service on bonds issued by the District for the Utility System (e.g., the Bonds).
- (f) For the 2019 tax year, the District's total tax rate for debt service is composed of a tax in the amount of \$0.54 for payment of debt service on bonds issued for the Utility System and a tax in the amount of \$0.16 for payment of debt service on bonds issued for the Road System. The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Utility System and for payment of debt service on bonds issued for the Road System; both such taxes are unlimited as to rate or amount.
- (g) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."

Estimated Overlapping Debt Statement

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

Taxing Jurisdiction	Outstanding Debt June 30, 2019	Overlapping	
		Percent	Amount
Parker County	\$ 116,835,000	0.93%	\$ 1,080,860
Parker County Junior College District	4,385,000	0.93%	40,768
Aledo Independent School District	163,159,869	3.31%	<u>5,406,522</u>
Total Estimated Overlapping Debt			\$ 6,528,150
The District (a).....			\$19,345,000
Total Direct & Estimated Overlapping Debt (a).....			\$25,873,150

Debt Ratios

Direct Debt Ratios (a):

Based on the 2019 Taxable Assessed Valuation	14.13 %
Based on the Estimated Valuation as of June 15, 2019.....	11.59 %

Direct and Estimated Overlapping Debt Ratios (a):

Based on the 2019 Taxable Assessed Valuation	18.90 %
Based on the Estimated Valuation as of June 15, 2019.....	15.49 %

(a) Includes the Outstanding Bonds and the Bonds.

Debt Service Requirements

The following schedule sets forth the annual debt service requirements of the Outstanding Bonds; the principal and interest requirements of the Bonds; and the total combined annual debt service requirements of the Outstanding Bonds and the Bonds.

Calendar Year	Outstanding Bonds Debt Service	Plus: The Bonds			Total Annual Debt Service
		Principal	Interest	Debt Service	
2020	\$632,569	\$235,000	\$255,625	\$490,625	\$1,123,194
2021	626,819	245,000	245,050	490,050	1,116,869
2022	630,714	250,000	234,025	484,025	1,114,739
2023	628,869	260,000	222,775	482,775	1,111,644
2024	626,459	270,000	211,075	481,075	1,107,534
2025	628,444	280,000	198,925	478,925	1,107,369
2026	624,559	290,000	189,825	479,825	1,104,384
2027	630,015	300,000	184,025	484,025	1,114,040
2028	624,460	315,000	178,025	493,025	1,117,485
2029	628,600	325,000	171,725	496,725	1,125,325
2030	636,350	335,000	165,225	500,225	1,136,575
2031	638,425	350,000	158,525	508,525	1,146,950
2032	639,650	365,000	151,525	516,525	1,156,175
2033	645,056	375,000	144,225	519,225	1,164,281
2034	644,863	390,000	136,256	526,256	1,171,119
2035	648,819	405,000	127,481	532,481	1,181,300
2036	647,056	420,000	117,863	537,863	1,184,919
2037	649,225	435,000	107,888	542,888	1,192,113
2038	650,594	455,000	97,556	552,556	1,203,150
2039	656,144	470,000	86,181	556,181	1,212,325
2040	655,163	485,000	74,431	559,431	1,214,594
2041	653,413	505,000	62,306	567,306	1,220,719
2042	660,906	525,000	49,050	574,050	1,234,956
2043	472,250	545,000	33,300	578,300	1,050,550
2044	-	565,000	16,950	581,950	581,950
Total	\$15,179,419	\$9,395,000	\$3,619,838	\$13,014,838	\$28,194,256

Average Annual Debt Service Requirement (2020–2044)\$1,127,770

Maximum Annual Debt Service Requirement (2042).....\$1,234,956

TAXING PROCEDURES

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

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds, any additional bonds payable from taxes issued by the District for the Utility System, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under "THE BONDS - Source of Payment." The Board is further authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on bonds payable from taxes issued by the District for the Road System, and to pay the expenses of assessing and collecting such taxes. Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and for the payment of certain contractual obligations. For the 2019 tax year, the District levied a total tax of \$1.00 per \$100 of assessed valuation composed of the following: a tax in the amount of \$0.30 for maintenance and operations; a tax in the amount of \$0.54 for payment of debt service on bonds issued for the Utility System; and a tax in the amount of \$0.16 for payment of debt service on bonds issued for the Road System. See "TAX DATA - Tax Rate Limitation."

Tax Code and County-Wide Appraisal District

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

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board. To date, the District has not granted such exemptions. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. In addition, a partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

Residential Homestead Exemptions: The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The

adoption of a homestead exemption may be considered each year, but must be adopted by May 1. The District has never adopted a homestead exemption.

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

Tax Abatement

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

Valuation of Property for Taxation

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

The Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by one political subdivision while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

Notice and Hearing Procedures

The Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayers referenda which could result in the repeal of certain tax increases. The District is required to publish a notice of a public hearing regarding the tax rate proposed to be levied in the current year and comparing the proposed tax rate to the tax rate set in the preceding year.

Rollback of Operation and Maintenance Tax Rate

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

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, which effectively restricts increases in the District's operation and maintenance tax rates by requiring rollback elections to reduce the operation and maintenance tax component of the District's total tax rate (collectively, the debt service tax rate, maintenance and operations tax rate and contract tax rate are the "total tax rate"). See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. SB 2 requires a reduction in the operation and maintenance tax component of the District's total tax rate if the District's total tax rate surpasses the thresholds for specific classes of districts in SB 2. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed are classified herein as "Other Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

Low Tax Rate Districts

Low Tax Rate Districts that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Low Tax Rate District is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

Developed Districts

Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

Other Districts

Districts that do not meet the classification of a Low Tax Rate District or a Developed District are classified as Other Districts. The qualified voters of these districts, upon the Other District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If a rollback election is called and passes, the total tax rate for Other Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

The District

A determination as to a district's status as a Low Tax Rate District, Developed District or Other District will be made on an annual basis, at the time a district sets its tax rate, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new rollback election calculation.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a timely petition for review in district court. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. The date of delinquency may be postponed if the tax bills are mailed after January 10. A person over sixty-five (65) years of age is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based on valuation of property within the District as of the preceding January 1.

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

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year in which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each taxing unit, including the District, having the power to tax the property. The

District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchasers deed at the foreclosure sale is filed in the county records.

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TAX DATA

General

Taxable property within the District is subject to the assessment, levy, and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds and any additional tax-supported bonds issued by the District for the Utility System. Taxable property within the District is also subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on any tax-supported bonds issued by the District for the Road System. Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due November 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. In the Bond Order, the Board covenants to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, taxes that are ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such taxes will be determined from year to year as a function of the District's tax base, its debt service requirements, and available funds. In addition, the District has the power and authority to assess, levy, and collect ad valorem taxes, not to exceed \$1.00 per \$100 of assessed valuation, for operation and maintenance purposes. For the 2018 tax year, the District levied a total tax of \$1.00 per \$100 of assessed valuation composed of the following: a tax in the amount of \$0.54 for maintenance and operations; a tax in the amount of \$0.26 for payment of debt service on bonds issued for the Utility System; and a tax in the amount of \$0.20 for payment of debt service on bonds issued for the Road System. For the 2019 tax year, as of the date of this Preliminary Official Statement, the District's Board of Directors has authorized publication of a notice of public hearing to consider a tax rate in the total amount of \$1.00 per \$100 of taxable assessed valuation.

Tax Rate Limitation

Utility System Debt Service:	Unlimited (no legal limit as to rate or amount).
Road System Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	\$1.00 per \$100 assessed valuation.

Historical Tax Collections

The following table illustrates the collection history of the District for the 2016–2019 tax years:

Tax Year	Assessed Valuation	Tax Rate	Adjusted Levy	Collections Current Year	Current Year Ended Sept. 30	Collections 06/30/2019
2016	\$ 1,994,090	\$1.00	\$ 19,941	100.00%	2017	100.00%
2017	10,734,406	\$1.00	107,344	99.79	2018	100.00
2018	73,679,955	\$1.00	736,800	99.95 (a)	2019	99.95
2019	136,909,825	\$1.00	1,369,098	(b)	2020	(b)

(a) Represents collections through June 30, 2019.

(b) The District adopted an order levying its tax for the 2019 tax year on August 19, 2019.

Tax Rate Distribution

The following table sets out the tax rates levied by the District for the 2016–2019 tax years:

	2019	2018	2017	2016
Debt Service (a)	\$0.700	\$0.460	\$0.000	\$0.000
Maintenance and Operations	<u>0.300</u>	<u>0.540</u>	<u>1.000</u>	<u>1.000</u>
Total	\$1.000	\$1.000	\$1.000	\$1.000

(a) For the 2019 tax year, the District's total tax rate for debt service is composed of a tax in the amount of \$0.54 for payment of debt service on bonds issued for the Utility System and a tax in the amount of \$0.16 for payment of debt service on bonds issued for the Road System. The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Utility System and for payment of debt service on bonds issued for the Road System; both such taxes are unlimited as to rate or amount.

Analysis of Tax Base

The following table illustrates the District’s total taxable assessed value in the tax years 2016–2019 by type of property:

Type of Property	2019 Taxable Assessed Valuation	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation
Land	\$51,304,593	\$29,049,060	\$8,673,467	\$3,469,380
Improvements	93,238,265	46,632,954	3,231,036	18,082
Personal Property	759,600	769,870	358,970	0
Exemptions	<u>(8,392,633)</u>	<u>(2,771,929)</u>	<u>(1,529,067)</u>	<u>(1,493,372)</u>
Total	\$136,909,825	\$73,679,955	\$10,734,406	\$1,994,090

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2019:

Taxpayer	Type of Property	Assessed Taxable Value 2019 Tax Roll	Percentage of District’s 2019 Taxable Value
FG Aledo Development LLC (a)	Land & Improvements	\$7,671,070	5.60%
DR Horton Texas LTD (a)	Land & Improvements	5,068,840	3.70
HMH Lifestyles LP	Land & Improvements	3,831,160	2.80
Highland Homes-Dallas LLC	Land & Improvements	2,497,760	1.82
IH Operations LLC	Land & Improvements	1,147,150	0.84
FWFW Holdings Inc (a)	Land & Improvements	1,010,300	0.74
Impression Homes LLC	Land & Improvements	577,200	0.42
Homeowner	Land & Improvements	413,220	0.30
Homeowner	Land & Improvements	405,030	0.30
Homeowner	Land & Improvements	398,470	0.29
Total		<u>\$23,020,200</u>	<u>16.81%</u>

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

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements on the Outstanding Bonds and the Bonds if no growth in the District occurs beyond the taxable assessed valuation as of January 1, 2019 (\$136,909,825), or the estimated valuation as of June 15, 2019 (\$166,980,000). The following further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirement (2020–2044)	\$1,127,770
Debt Service Tax of \$0.87 on the 2019 Taxable Assessed Valuation produces.....	\$1,131,560
Debt Service Tax of \$0.72 on the Estimated Valuation as of June 15, 2019, produces	\$1,142,143
Maximum Annual Debt Service Requirement (2042).....	\$1,234,956
Debt Service Tax of \$0.95 on the 2019 Taxable Assessed Valuation produces.....	\$1,235,611
Debt Service Tax of \$0.78 on the Estimated Valuation as of June 15, 2019, produces	\$1,237,322

Estimated Overlapping Taxes

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

Debt Statement”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a compilation of all 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.

Taxing Jurisdiction	2018 Tax Rate
Parker County	\$0.30231800
Parker County Lateral Road	\$0.08148800
Parker County Hospital District	\$0.11152000
Parker County Emergency Services District No. 1	\$0.10000000
Parker County Junior College District	\$0.11947000
Aledo Independent School District	\$1.59500000
The District	\$1.00000000
Total	<u>\$3.30979600</u>

THE DISTRICT

General

The District is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District was created by Order of the TCEQ dated August 3, 2009, and is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The Order of the TCEQ creating the District authorizes it to finance major thoroughfares, arterial and feeder roads. The District is also authorized to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ.

Description

The District as created encompassed approximately 375 acres. Effective March 30, 2017, the District annexed approximately 177 acres and currently encompasses approximately 552 acres. The District is situated wholly within in Parker County, Texas, and is located approximately 4 miles north of the City of Aledo, Texas, approximately 15 miles west of the City, and wholly within the extraterritorial jurisdiction of the City. The District is bordered on the north by Morningstar Ranch Municipal Utility District No. 2 of Parker County (“MUD 2”); on the west by MUD 2 and Farmer Road; and on the south by Old Weatherford Road. The District is located entirely within Aledo Independent School District.

Creation and Operation Agreement

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

Development Agreement

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

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

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

Management of the District

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

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

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

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

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

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. McCall Gibson Swedlund Barfoot PLLC performed the audit of the District's financial statements for the fiscal year ended March 31, 2019. See "APPENDIX A."

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

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

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

Financial Advisor: The District has engaged the firm of Robert W. Baird & Co. Incorporated as financial advisor to the District. Payment to the Financial Advisor by the District is contingent upon the issuance, sale, and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to

make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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DEVELOPMENT STATUS OF THE DISTRICT

The District comprises approximately 552 total acres of land. To date, approximately 910 single-family lots have been developed as the residential subdivisions of Morningstar, Sections 5-1, 5-2, 5-3, 6-1, 6-2, 6-3, 6-4, 7-1, 7-2, 8-1, 8-2, and 10-2. As of June 15, 2019, such single-family residential development in the District included approximately 499 completed homes (approximately 430 of which being occupied, 63 unoccupied, and 6 model homes), approximately 21 homes under construction, and approximately 390 developed but vacant lots. In addition, the following two subdivisions are currently under construction: Morningstar Section 8, Phase 3, is under construction for the development of 79 single-family lots and Morningstar Section 8, Phase 4, is under construction for the development of 87 single-family lots.

The subdivisions referenced above encompass approximately 268 acres including lands for residential lots, road rights-of-way, an amenity center, and open spaces. The remaining land in the District consists of approximately 29 undeveloped acres dedicated to development of a school and commercial property, approximately 153 undeveloped but developable acres, and approximately 102 undevelopable acres.

The table below summarizes the development within the District as of June 15, 2019, by section.

Morningstar	Section Acreage	Section Total Lots	Homes Completed	Homes Construction	Developed Vacant Lots
Section 5, Phase 1	24.51	68	61	0	7
Section 5, Phase 2	11.64	41	37	1	3
Section 5, Phase 3	25.92	86	0	2	84
Section 6, Phase 1	14.65	72	72	0	0
Section 6, Phase 2	18.29	79	79	0	0
Section 6, Phase 3	18.33	71	49	0	22
Section 6, Phase 4	22.64	75	0	0	75
Section 7, Phase 1	26.16	91	85	2	4
Section 7, Phase 2	29.22	112	3	3	106
Section 8, Phase 1	19.06	99	89	3	7
Section 8, Phase 2	17.63	91	21	10	60
Section 10, Phase 2	<u>6.85</u>	<u>25</u>	<u>3</u>	<u>0</u>	<u>22</u>
Total Developed Residential	234.90	910	499	21	390
Residential Under Construction	33.50				
School and Commercial	29.00				
Undeveloped but Developable	152.78				
Undevelopable	102.20				
District Total	552.38				

Homebuilders within the District

Homebuilders active in the District include DR Horton, Highland Homes, Impression Homes, and Rendition Homes. Homes range in price from \$250,000–\$450,000 and in size from 1,800–4,500 square feet. Homebuilding in the District began in October of 2016 and as of July 26, 2018, approximately 339 single-family homes have been completed and approximately 48 homes are under construction. During 2016, approximately 8 homes were sold within the District; during 2017, approximately 167 homes were sold within the District; during 2018 approximately 218 homes were sold within the District; and through seven months of 2019, approximately 105 homes were sold within the District.

MORNINGSTAR

The District is part of the 737-acre, master-planned community known as “Morningstar.” Morningstar is located along Interstate 20 and includes amenities such as a clubhouse with resort-style pools, cabanas, play yards, and a lakeside amphitheater. Morningstar also offers its residents miles of hike and bike trails, open green spaces, and a community center.

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

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

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PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(August 2019)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(August 2019)



THE DEVELOPERS/PRINCIPAL LANDOWNERS

The Role of a Developer

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

The Developers and Principal Landowners

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

FG Aledo and FFWF

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

Currently, FG Aledo owns approximately 23.91 acres in the District; approximately 165 vacant but developed lots in the District; approximately 0 lots under development in the District; and approximately 0 acres in the remainder of Morningstar (i.e., MUD 2). FFWF owns approximately 203.76 acres in the District and approximately 184.31 acres in the remainder of Morningstar.

Wilbow

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

Currently, Wilbow owns approximately 33.405 acres in the District; approximately 143 vacant but developed lots in the District; approximately 166 lots under development in the District; and approximately 0 acres in the remainder of Morningstar.

D.R. Horton

D.R. Horton-Texas, Ltd., a Texas limited partnership, which is a subsidiary of and controlled by D.R. Horton, Inc. ("DR Horton"), homebuilder in the District and one of the District's principal taxpayers, comprises of approximately 3.70% of the District's total certified assessed valuation. See "TAX DATA - Principal Taxpayers" for a discussion of DR Horton's ownership of property in the District. DR Horton is a publicly traded corporation whose stock is listed on the New York Stock Exchange under the ticker symbol "DHI." Audited financial statements for D.R. Horton, Inc. can be found online at <https://investor.drhorton.com>. DR Horton is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the United States Securities and Exchange

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

Development Financing

FG Aledo has entered into a development loan with Simmons Bank, an Arkansas state bank, as successor-in-interest by merger to Southwest Bank, in the principal amount of \$3,928,444. Such loan matures on February 23, 2021, and interest accrues at the rate of the greater of 4.75% or prime plus 0.50%. According to FG Aledo, \$1,648,648 remains outstanding on such loan, and it is in compliance with all material provisions of the loan. FG Aledo’s development loan is secured by a lien on its existing lots in the District and approximately 93 undeveloped acres in the District.

FG Aledo has also entered into a land loan with Simmons Bank, an Arkansas state bank, as successor-in-interest by merger to Southwest Bank, in the principal amount of \$2,000,000. Such loan matures on May 28, 2020, and interest accrues at the rate of 4.75%. According to FG Aledo, \$314,634 remains outstanding on such loan, and it is in compliance with all material provisions of the loan. Such loan is secured by a lien on approximately 98.174 acres in the District and MUD 2.

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

FG Aledo has entered into a development loan with Simmons Bank, an Arkansas state bank, in the principal amount of \$3,000,000. Such loan matures on February 23, 2021, and interest accrues at the rate of the greater of 4.75% or prime plus 0.50%. According to FG Aledo, \$1,695,645 principal amount remains outstanding, and it is in compliance with all material provisions of the loan. FG Aledo’s development loan is secured by a lien on its existing lots in the District and approximately 93 undeveloped acres in the District.

Lot-Sales Contracts

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

According to the Developers, each of the builders is in compliance with its respective lot-sales contract. As of July 31, 2019, the approximate total number of lots contracted and purchased by each builder is listed below:

Builder	Total Lots Contracted	Total Lots Purchased
DR Horton	497	407
Highland Homes	117	100
Impression Homes	71	65
Rendition Homes	151	120
Totals	836	692

THE SYSTEMS

Regulation

According to the Engineer, the water distribution, wastewater collection and storm water drainage facilities and roads constructed by the District have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City, and Parker County, Texas. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies and, the water and sanitary sewer system has been inspected by the appropriate jurisdictional entities.

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

Description of the Systems

- Roads -

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

- Utility Agreement -

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

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

- Wastewater Treatment and Conveyance System -

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

- Water Supply and Distribution -

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

- Drainage -

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

- Impact Fees -

The City currently charges \$1,758 for water and \$1,044 for wastewater impact fees for residential connections. The Developer is responsible for paying them as building permits are issued. They are reimbursable with Utility System bonds.

LEGAL MATTERS

Legal Opinions

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

In addition to serving as Bond Counsel, Coats Rose, P.C., also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid Bond Counsel and Disclosure Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold, and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

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

of the Bonds, the corporate existence or boundaries of the District or the titles of the then present officers of the Board.

No Material Adverse Change

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Coats Rose, P.C., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the Bonds (1) will be excludable from the "gross income" of the holders thereof for federal income tax purposes and (2) is not subject to the alternative minimum tax on individuals. Except as stated above, Bond Counsel will express no opinion as to any other federal, state, or local tax consequences of the purchase, ownership, or disposition of the Bonds.

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

The Internal Revenue Code of 1986 (the "Code") and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

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

Tax Accounting of Original Issue Discount Bonds

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

amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation. Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the

fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

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

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS

Section 265 of the Code provides, in general, that interest expense incurred to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner thereof. In addition, interest expense incurred by certain owners that are “financial institutions” within the meaning of such section and which is allocable to tax-exempt obligations acquired after August 7, 1986, is completely disallowed as a deduction for taxable years beginning after December 31, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions and allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the District, as “qualified tax-exempt obligations.” An issue may be designated as “qualified tax-exempt obligations” only where the amount of such issue, when added to all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has not designated the Bonds as “qualified tax-exempt obligations.”

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other 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"); (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; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties. 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. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement, or from any statement made pursuant to its agreement, although holders and beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations

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

Compliance with Prior Undertakings

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

SOURCES OF INFORMATION

General

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

Experts

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

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

The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the section captioned "THE DEVELOPERS/PRINCIPAL LANDOWNERS," "DEVELOPMENT STATUS OF THE DISTRICT," and "MORNINGSTAR" has been provided by the Developers and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned "TAX DATA" has been provided by the Appraisal District and

the District's Tax Assessor/Collector, and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

Certification as to Official Statement

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

Updating the Official Statement

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

CONCLUDING STATEMENT

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

This Official Statement was approved by the Board of Directors of Morningstar Ranch Municipal Utility District No. 1 of Parker County as of the date shown on the cover page hereof.

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

ATTEST:

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

APPENDIX A
Financial Statements of the District

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY**

PARKER COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2019

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Morningstar Ranch Municipal Utility District No. 1 of Parker County (the "District"), as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

July 22, 2019

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

Management’s discussion and analysis of Morningstar Ranch Municipal Utility District No. 1 of Parker County’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended March 31, 2019. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$6,573,082 as of March 31, 2019. The following is a comparative analysis of government-wide changes in net position:

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2019</u>	<u>2018</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 1,853,615	\$ 539,010	\$ 1,314,605
Intangible Assets (Net of Accumulated Amortization)	<u>9,281,797</u>	<u>4,584,339</u>	<u>4,697,458</u>
Total Assets	<u>\$ 11,135,412</u>	<u>\$ 5,123,349</u>	<u>\$ 6,012,063</u>
Due to Developer	\$ 2,597,688	\$ 3,413,120	\$ 815,432
Bonds/Bond Anticipation Note Payable	15,023,132	6,010,865	(9,012,267)
Other Liabilities	<u>87,674</u>	<u>41,471</u>	<u>(46,203)</u>
Total Liabilities	<u>\$ 17,708,494</u>	<u>\$ 9,465,456</u>	<u>\$ (8,243,038)</u>
Net Position:			
Net Investment in Capital Assets	\$ (7,430,885)	\$ (4,436,117)	\$ (2,994,768)
Restricted	607,659	107,598	500,061
Unrestricted	<u>250,144</u>	<u>(13,588)</u>	<u>263,732</u>
Total Net Position	<u>\$ (6,573,082)</u>	<u>\$ (4,342,107)</u>	<u>\$ (2,230,975)</u>

The following table provides a summary of the District's operations for the years ending March 31, 2019 and March 31, 2018.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2019</u>	<u>2018</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 735,079	\$ 118,090	\$ 616,989
Other Revenues	<u>13,547</u>	<u>744</u>	<u>12,803</u>
Total Revenues	\$ 748,626	\$ 118,834	\$ 629,792
Total Expenses	<u>2,979,601</u>	<u>4,397,675</u>	<u>1,418,074</u>
Change in Net Position	\$ (2,230,975)	\$ (4,278,841)	\$ 2,047,866
Net Position, Beginning of Year	<u>(4,342,107)</u>	<u>(63,266)</u>	<u>(4,278,841)</u>
Net Position, End of Year	<u>\$ (6,573,082)</u>	<u>\$ (4,342,107)</u>	<u>\$ (2,230,975)</u>

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2019, were a deficit of \$3,231,908, a decrease of \$581,191 from the prior year.

The District's General Fund fund balance increased by \$260,452, primarily due to property tax revenues exceeding administrative costs.

The District's Debt Service Fund fund balance increased by \$518,748, primarily due to the structure of the District's long-term debt and the receipt of capitalized interest from two bond sales in the current fiscal year.

The Capital Projects Fund fund balance decreased by \$1,360,391, primarily due to the sale of the Series 2019 Bond Anticipation Note which was recorded as a payable in the Capital Projects Fund. This deficit will be alleviated upon the sale of the Series 2019 Bonds (see Note 13).

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$33,989 less than budgeted primarily due to lower than anticipated maintenance tax revenues. Actual expenditures were \$79,514 more than budgeted expenditures primarily due to higher than anticipated professional fees.

CAPITAL ASSETS AND INTANGIBLE ASSETS

The District is located within the extraterritorial jurisdiction of the City of Fort Worth, Texas (the "City"). In accordance with a Utility Agreement with the City, all water and wastewater facilities are conveyed to the City once constructed and placed in service. The City operates the facilities and is responsible for the maintenance. The District's intangible assets included water and sewer infrastructure as well as impact fees with a March 31, 2019 balance, net of accumulated amortization, of \$9,281,797.

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2019**

LONG-TERM DEBT ACTIVITY

The Series 2017 Road Bonds and Series 2018 Road Bonds are not rated as of year-end. The Series 2018 Tax Utility Bonds carry a rating of “AA” from Standard and Poor’s by virtue of bond insurance issued by Build America Mutual Assurance Company. As of March 31, 2019, the District had total bond debt payable of \$9,950,000. The changes in the debt position of the District during the year ended March 31, 2019, are summarized as follows:

Bond Debt Payable, April 1, 2018	\$ 2,850,000
Add: Bond Sales	<u>7,100,000</u>
Bond Debt Payable, March 31, 2019	<u>\$ 9,950,000</u>

CONTACTING THE DISTRICT’S MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Morningstar Ranch Municipal Utility District No. 1 of Parker County, c/o Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, TX 75254.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2019**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 335,871	\$ 85,420
Investments		565,000
Property Taxes Receivable	4,804	4,092
Accrued Interest		2,478
Due from Other Funds	18,284	
Intangible Assets, Net of Accumulated Amortization		
TOTAL ASSETS	\$ 358,959	\$ 656,990
LIABILITIES		
Accounts Payable	\$ 18,420	\$
Accrued Interest Payable		
Due to Developer		
Due to Other Funds		18,284
Bond Anticipation Note Payable		
Long-Term Liabilities:		
Bonds Payable Due After One Year		
TOTAL LIABILITIES	\$ 18,420	\$ 18,284
DEFERRED INFLOWS OF RESOURCES		
Property Tax Revenues	\$ 4,804	\$ 4,092
FUND BALANCES (DEFICIT)		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		634,614
Unassigned	335,735	
TOTAL FUND BALANCES (DEFICIT)	\$ 335,735	\$ 634,614
TOTAL LIABILITIES AND FUND BALANCES	\$ 358,959	\$ 656,990
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
\$ 855,950	\$ 1,277,241	\$	\$ 1,277,241
	565,000		565,000
	8,896		8,896
	2,478		2,478
	18,284	(18,284)	
		9,281,797	9,281,797
<u>\$ 855,950</u>	<u>\$ 1,871,899</u>	<u>\$ 9,263,513</u>	<u>\$ 11,135,412</u>
\$ 8,500	\$ 26,920	\$	\$ 26,920
29,707	29,707	31,047	60,754
		2,597,688	2,597,688
	18,284	(18,284)	
5,020,000	5,020,000		5,020,000
		10,003,132	10,003,132
<u>\$ 5,058,207</u>	<u>\$ 5,094,911</u>	<u>\$ 12,613,583</u>	<u>\$ 17,708,494</u>
<u>\$ -0-</u>	<u>\$ 8,896</u>	<u>\$ (8,896)</u>	<u>\$ -0-</u>
\$ (4,202,257)	\$ (4,202,257)	\$ 4,202,257	\$
	634,614	(634,614)	
	335,735	(335,735)	
<u>\$ (4,202,257)</u>	<u>\$ (3,231,908)</u>	<u>\$ 3,231,908</u>	<u>\$ -0-</u>
<u>\$ 855,950</u>	<u>\$ 1,871,899</u>		
		\$ (7,430,885)	\$ (7,430,885)
		607,659	607,659
		250,144	250,144
		<u>\$ (6,573,082)</u>	<u>\$ (6,573,082)</u>

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
MARCH 31, 2019**

Total Fund Balances - Governmental Funds	\$ (3,231,908)
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	9,281,797
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Deferred inflows of resources related to property tax revenues for the 2018 tax levy became part of recognized revenue in the governmental activities of the District.	8,896
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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	\$ (2,597,688)	
Accrued Interest Payable	(31,047)	
Bonds Payable	<u>(10,003,132)</u>	<u>(12,631,867)</u>
Total Net Position - Governmental Activities		<u>\$ (6,573,082)</u>

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

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**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 394,318	\$ 333,389
Penalty and Interest		352
Miscellaneous Revenues	<u>783</u>	<u>6,492</u>
TOTAL REVENUES	<u>\$ 395,101</u>	<u>\$ 340,233</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 121,770	\$
Contracted Services	6,396	3,023
Amortization		
Other	6,483	198
Capital Outlay		
Conveyance of Assets		
Debt Service:		
Issuance Costs		
Bond and Bond Anticipation Note Interest		<u>228,298</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 134,649</u>	<u>\$ 231,519</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ 260,452</u>	<u>\$ 108,714</u>
OTHER FINANCING SOURCES (USES)		
Bond Discount	\$	\$
Bond Premium		
Proceeds from Issuance of Long-Term Debt		<u>410,034</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ 410,034</u>
NET CHANGE IN FUND BALANCES	\$ 260,452	\$ 518,748
CHANGE IN NET POSITION		
FUND BALANCES (DEFICIT)/NET POSITION - APRIL 1, 2018	<u>75,283</u>	<u>115,866</u>
FUND BALANCES (DEFICIT)/NET POSITION - MARCH 31, 2019	<u>\$ 335,735</u>	<u>\$ 634,614</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 727,707	\$ 7,372	\$ 735,079
	352		352
<u>5,920</u>	<u>13,195</u>		<u>13,195</u>
\$ <u>5,920</u>	\$ <u>741,254</u>	\$ <u>7,372</u>	\$ <u>748,626</u>
\$ 154,306	\$ 276,076	\$	\$ 276,076
	9,419		9,419
		340,960	340,960
281	6,962		6,962
7,062,588	7,062,588	(7,062,588)	
		1,208,738	1,208,738
814,636	814,636		814,636
<u>73,042</u>	<u>301,340</u>	<u>21,470</u>	<u>322,810</u>
\$ <u>8,104,853</u>	\$ <u>8,471,021</u>	\$ <u>(5,491,420)</u>	\$ <u>2,979,601</u>
\$ <u>(8,098,933)</u>	\$ <u>(7,729,767)</u>	\$ <u>5,498,792</u>	\$ <u>(2,230,975)</u>
\$ (102,759)	\$ (102,759)	\$ 102,759	\$
151,335	151,335	(151,335)	
<u>6,689,966</u>	<u>7,100,000</u>	<u>(7,100,000)</u>	
\$ <u>6,738,542</u>	\$ <u>7,148,576</u>	\$ <u>(7,148,576)</u>	\$ <u>-0-</u>
\$ (1,360,391)	\$ (581,191)	\$ 581,191	\$
		(2,230,975)	(2,230,975)
<u>(2,841,866)</u>	<u>(2,650,717)</u>	<u>(1,691,390)</u>	<u>(4,342,107)</u>
\$ <u>(4,202,257)</u>	\$ <u>(3,231,908)</u>	\$ <u>(3,341,174)</u>	\$ <u>(6,573,082)</u>

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$	(581,191)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		7,372
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Governmental funds do not account for amortization. However, in the Statement of Net Position, intangible assets are amortized over the applicable period.		(340,960)
--	--	-----------

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		5,853,850
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Governmental funds report bond premiums and bond discounts as other financing sources or uses in the year received or paid. However, in the Statement of Net Position, the bond premiums and bond discounts are amortized over the term of the bonds and the current year amortized portion is recorded in the Statement of Activities.		(48,576)
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(21,470)
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Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		<u>(7,100,000)</u>
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Change in Net Position - Governmental Activities	\$	<u><u>(2,230,975)</u></u>
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The accompanying notes to the financial statements are an integral part of this report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 1. CREATION OF DISTRICT

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Funds

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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

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

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

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2019, the Debt Service Fund owed the General Fund \$18,284 for maintenance tax collections.

Capital Assets and Intangible Assets

The District conveys its water and wastewater infrastructure to the City of Fort Worth for ownership and maintenance. Capital assets retained by the District for ownership and maintenance are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Intangible Assets (Continued)

maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset. Certain assets are capitalized if they have an original cost greater than \$10,000 and a useful life over 2 years. Future construction of detention facilities will be owned and maintained by the District and depreciated over 45 years.

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

Budgeting

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

Pensions

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

Measurement Focus

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 3. LONG-TERM DEBT

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2019:

	April 1, 2018	Additions	Retirements	March 31, 2019
Bonds Payable	\$ 2,850,000	\$ 7,100,000	\$	\$ 9,950,000
Unamortized Premiums	5,865	151,335	3,572	153,628
Unamortized Discounts		(102,759)	(2,263)	(100,496)
Bonds Payable, Net	<u>\$ 2,855,865</u>	<u>\$ 7,148,576</u>	<u>\$ 1,309</u>	<u>\$ 10,003,132</u>
		Amount Due Within One Year		\$ -0-
		Amount Due After One Year		<u>10,003,132</u>
		Bonds Payable, Net		<u>\$ 10,003,132</u>

The District's bonds payable at March 31, 2019, consist of the following:

	Series 2017 Road	Series 2018 Road	Series 2018 Utility
Amounts Outstanding – March 31, 2019	\$ 2,850,000	\$ 1,140,000	\$ 5,960,000
Interest Rates	2.00%-4.00%	3.00%-4.00%	3.00%-5.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2020/2042	September 1, 2020/2043	September 1, 2020/2043
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2025*	September 1, 2023*	September 1, 2023*

* Or any date thereafter at a price of par plus unpaid accrued interest to the date fixed for redemption. The Series 2017 Road bonds maturing on September 1, 2032, 2035, 2038 and 2042, are term bonds and are subject to mandatory redemption beginning September 1, 2029, 2033, 2036 and 2039, respectively. The Series 2018 Road bonds maturing on September 1, 2043 are term bonds and are subject to mandatory redemption beginning September 1, 2038. The Series 2018 Utility bonds maturing on September 1, 2038, 2040 and 2043, are term bonds and are subject to mandatory redemption on September 1, 2037, 2039 and 2041, respectively.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 3. LONG-TERM DEBT (Continued)

As of March 31, 2019, the debt service requirements on the outstanding bonds were as follows:

Fiscal Year	Principal	Interest	Total
2020	\$	\$ 372,568	\$ 372,568
2021	260,000	367,195	627,195
2022	265,000	356,265	621,265
2023	280,000	344,791	624,791
2024	290,000	332,663	622,663
2025-2029	1,635,000	1,467,509	3,102,509
2030-2034	2,000,000	1,153,911	3,153,911
2035-2039	2,435,000	761,198	3,196,198
2040-2044	2,785,000	259,603	3,044,603
	<u>\$ 9,950,000</u>	<u>\$ 5,415,703</u>	<u>\$ 15,365,703</u>

The District has the following authorized but unissued bonds: \$67,040,000 for water, wastewater and drainage facilities; \$24,210,000 for roads; \$109,500,000 for refunding water, wastewater and drainage facilities bonds; and \$42,300,000 for refunding road bonds. The bonds of the District are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

The 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 March 31, 2019, the District levied a combined ad valorem debt service tax rate (roads and utilities) of \$0.46 per \$100 of assessed valuation, which resulted in a tax levy of \$337,481 on the adjusted taxable valuation of \$73,637,212 for the 2018 tax year. See Note 7 for the maintenance tax levy. The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS
(Continued)

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

As of the end of the prior fiscal year, \$115,472 remained deposited in the Debt Service Fund from the Series 2017 Road Bonds and was restricted for the payment of bond interest. During the current fiscal year, \$410,034 was deposited in the Debt Service Fund from the Series 2018 Road Bonds and Series 2018 Utility Bonds. The District made interest payments of \$228,298 during the current fiscal year leaving a restricted balance of \$297,478 as of March 31, 2019.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,708,241 and the bank balance was \$1,842,241. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2019, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 335,871	\$	\$ 335,871
DEBT SERVICE FUND	85,420	431,000	516,420
CAPITAL PROJECTS FUND	855,950		855,950
TOTAL DEPOSITS	<u>\$ 1,277,241</u>	<u>\$ 431,000</u>	<u>\$ 1,708,241</u>

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in certificates of deposit and records those investments at acquisition cost. As of March 31, 2019, the District had the following investments and maturities.

Fund and Investment Type	Fair Value	Maturities Of Less Than 1 Year
<u>DEBT SERVICE FUND</u>		
Certificates of Deposit	<u>\$ 431,000</u>	<u>\$ 431,000</u>

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

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

Restrictions

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 6. CAPITAL ASSETS AND INTANGIBLE ASSETS

The District is located within the extraterritorial jurisdiction of the City of Fort Worth, Texas. In accordance with a Utility Agreement with the City, all water and wastewater facilities are conveyed to the City once constructed and placed in service. The City operates and maintains the facilities. These assets, along with impact fees paid to the City, are recorded as intangible assets and amortized over 45 years. Intangible assets, net of accumulated amortization, totaled \$9,281,797 as of March 31, 2019. Current year additions to infrastructure which were conveyed to the City totaled \$5,038,418 and current year amortization expense totaled \$340,960.

Parker County accepts ownership and maintenance responsibility for roadways within the District. Road facilities recorded as conveyed to the County totaled \$1,208,738 in the current fiscal year. Construction of detention facilities will be owned and maintained by the District.

NOTE 7. MAINTENANCE TAX

On November 3, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. During the year ended March 31, 2019, the District levied an ad valorem maintenance tax rate of \$0.54 per \$100 of assessed valuation, which resulted in a tax levy of \$396,173 on the adjusted taxable valuation of \$73,637,212 for the 2018 tax year.

NOTE 8. UNREIMBURSED COSTS

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

NOTE 9. RISK MANAGEMENT

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

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 10. AGREEMENTS WITH THE CITY OF FORT WORTH

The District executed a Development Agreement with the City of Fort Worth (the “City”). The agreement, as amended, limits the amount of bonds which can be sold to fund the reimbursement of costs paid by the developer on behalf of the District and Morningstar Ranch Municipal Utility District No. 2 (MUD 2). Further, the agreement provides the developers will not seek reimbursement from the District or MUD 2 from bonds issued after August 21, 2035. The agreement provides the City will not annex any land within Morningstar Ranch for full purposes any earlier than August 21, 2035.

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

NOTE 11. BOND SALES

On September 11, 2018, the District issued its \$1,140,000 Unlimited Tax Road Bonds, Series 2018. Proceeds from the bond sale were used to reimburse the developer for Morningstar, Sections 5, 6, 7 and 10 paving and street light improvements and land acquisition costs. Additional proceeds were used to provide for capitalized interest and to pay for issuance costs of the bonds.

On September 11, 2018, the District issued its \$5,960,000 Unlimited Tax Utility Bonds, Series 2018. Proceeds from the bond sale were used to reimburse the developer for a portion of construction and engineering costs for offsite sanitary sewer; offsite water line for Westside, Sections 4 and 5; offsite easement acquisition; and water and wastewater impact fees. Additional proceeds were used to redeem the Series 2018 Bond Anticipation Note (the “2018 BAN”) and to pay for issuance costs of the 2018 BAN and bonds.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2019**

NOTE 12. BOND ANTICIPATION NOTE SALE AND DEFICIT FUND BALANCE

On January 10, 2019, the District sold its Series 2019 Bond Anticipation Note (the “BAN”) in the principal amount of \$5,020,000 at 2.70%. Proceeds from the BAN sale were used to reimburse the developer for a portion of construction and engineering costs for: Indigo Sky and Morning Mist; Morningstar, Sections 5, 6, 7, 8 and 10; water and wastewater impact fees; easement acquisition fees; storm water pollution prevention planning; a drainage study; and issuance costs associated with the BAN. Due to the recording of the BAN as a current payable of the Capital Projects Fund, the Capital Projects Fund has incurred a deficit fund balance at March 31, 2019, in the amount of \$4,202,257. This deficit will be alleviated upon the future sale of bonds (see Note 13).

NOTE 13. BOND APPLICATION

The District has received approval from the Commission to issue \$9,395,000 of Unlimited Tax Utility Bonds. Delivery of the bonds is expected on or about September 16, 2019.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2019

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2019**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 429,090	\$ 394,318	\$ (34,772)
Miscellaneous Revenues		783	783
TOTAL REVENUES	<u>\$ 429,090</u>	<u>\$ 395,101</u>	<u>\$ (33,989)</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 41,500	\$ 121,770	\$ (80,270)
Contracted Services	6,600	6,396	204
Other	7,035	6,483	552
TOTAL EXPENDITURES	<u>\$ 55,135</u>	<u>\$ 134,649</u>	<u>\$ (79,514)</u>
NET CHANGE IN FUND BALANCE	\$ 373,955	\$ 260,452	\$ (113,503)
FUND BALANCE - APRIL 1, 2018	<u>75,283</u>	<u>75,283</u>	
FUND BALANCE - MARCH 31, 2019	<u>\$ 449,238</u>	<u>\$ 335,735</u>	<u>\$ (113,503)</u>

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**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY**

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

MARCH 31, 2019

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2019**

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

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

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

2. RETAIL SERVICE PROVIDERS: NOT APPLICABLE

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

4. STANDBY FEES: NOT APPLICABLE

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County in which District is located:

Parker County, Texas

Is the District located within a city?

Entirely Partly Not at all X

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

Entirely X Partly Not at all

ETJ in which District is located:

City of Fort Worth, Texas

Are Board Members appointed by an office outside the District?

Yes No X

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2019**

PROFESSIONAL FEES:	
Auditing	\$ 7,500
Engineering	94,517
Legal	<u>19,753</u>
TOTAL PROFESSIONAL FEES	<u>\$ 121,770</u>
CONTRACTED SERVICES:	
Bookkeeping	<u>\$ 6,396</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 3,391
Insurance	2,992
Other	<u>100</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 6,483</u>
TOTAL EXPENDITURES	<u>\$ 134,649</u>

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
INVESTMENTS
MARCH 31, 2019**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX0671	2.45%	08/26/19	\$ 196,000	\$ 447
Certificate of Deposit	XXXX0832	2.22%	08/26/19	235,000	1,744
Certificate of Deposit	XXXX0882	2.45%	08/26/19	<u>134,000</u>	<u>287</u>
TOTAL DEBT SERVICE FUND				<u><u>\$ 565,000</u></u>	<u><u>\$ 2,478</u></u>

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2019**

	Maintenance Taxes		Debt Service Taxes		
TAXES RECEIVABLE -					
APRIL 1, 2018	\$	1,524	\$	-0-	
Adjustments to Beginning					
Balance		<u>1,425</u>	\$	<u>-0-</u>	
Original 2018 Tax Levy	\$	397,872	\$	338,928	
Adjustments to 2018 Tax Levy		<u>(1,699)</u>	<u>396,173</u>	<u>(1,447)</u>	
TOTAL TO BE ACCOUNTED FOR		\$	399,122	\$	
				337,481	
TAX COLLECTIONS					
Prior Years	\$	2,949	\$		
Current Year		<u>391,369</u>	<u>394,318</u>	<u>333,389</u>	
TAXES RECEIVABLE -					
MARCH 31, 2019		<u>\$</u>	4,804	<u>\$</u>	4,092
TAXES RECEIVABLE BY					
YEAR:					
2018		<u>\$</u>	4,804	<u>\$</u>	4,092

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2019**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
PROPERTY VALUATIONS:			
Land	\$ 29,049,060	\$ 8,673,467	\$ 3,469,380
Improvements	46,632,954	3,231,036	18,082
Personal Property	769,870	358,970	
Exemptions	<u>(2,814,672)</u>	<u>(549,372)</u>	<u>(1,543,402)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 73,637,212</u>	<u>\$ 11,714,101</u>	<u>\$ 1,944,060</u>
TAX RATES PER \$100 VALUATION:			
Debt Service	\$ 0.46	\$ 0.00	\$ 0.00
Maintenance	<u>0.54</u>	<u>1.00</u>	<u>1.00</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
ADJUSTED TAX LEVY*	<u>\$ 733,654</u>	<u>\$ 117,141</u>	<u>\$ 19,441</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.79 %</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 \$1.00 per \$100 of assessed valuation was approved by voters on November 3, 2009.

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019**

SERIES - 2017 ROAD

Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$	\$ 99,212	\$ 99,212
2021	80,000	98,413	178,413
2022	80,000	96,772	176,772
2023	85,000	94,998	179,998
2024	90,000	92,982	182,982
2025	90,000	90,733	180,733
2026	95,000	88,232	183,232
2027	100,000	85,403	185,403
2028	105,000	82,275	187,275
2029	105,000	78,968	183,968
2030	110,000	75,087	185,087
2031	115,000	70,788	185,788
2032	120,000	65,887	185,887
2033	125,000	60,988	185,988
2034	130,000	56,131	186,131
2035	135,000	51,328	186,328
2036	140,000	46,344	186,344
2037	145,000	41,087	186,087
2038	150,000	35,556	185,556
2039	155,000	29,838	184,838
2040	165,000	23,734	188,734
2041	170,000	17,244	187,244
2042	175,000	10,359	185,359
2043	185,000	3,584	188,584
2044			
	<u>\$ 2,850,000</u>	<u>\$ 1,495,943</u>	<u>\$ 4,345,943</u>

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019**

SERIES - 2018 ROAD

Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$	\$ 41,487	\$ 41,487
2021	30,000	41,038	71,038
2022	30,000	40,137	70,137
2023	30,000	39,238	69,238
2024	30,000	38,337	68,337
2025	35,000	37,363	72,363
2026	35,000	36,313	71,313
2027	35,000	35,241	70,241
2028	40,000	34,044	74,044
2029	40,000	32,719	72,719
2030	40,000	31,344	71,344
2031	45,000	29,855	74,855
2032	45,000	28,253	73,253
2033	45,000	26,622	71,622
2034	50,000	24,868	74,868
2035	50,000	22,994	72,994
2036	55,000	21,025	76,025
2037	55,000	18,963	73,963
2038	55,000	16,865	71,865
2039	60,000	14,600	74,600
2040	60,000	12,200	72,200
2041	65,000	9,700	74,700
2042	65,000	7,100	72,100
2043	70,000	4,400	74,400
2044	75,000	1,500	76,500
	<u>\$ 1,140,000</u>	<u>\$ 646,206</u>	<u>\$ 1,786,206</u>

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019**

SERIES - 2018 UTILITY

Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$	\$ 231,869	\$ 231,869
2021	150,000	227,744	377,744
2022	155,000	219,356	374,356
2023	165,000	210,555	375,555
2024	170,000	201,344	371,344
2025	175,000	191,855	366,855
2026	185,000	181,956	366,956
2027	190,000	171,644	361,644
2028	200,000	163,419	363,419
2029	205,000	157,344	362,344
2030	215,000	151,044	366,044
2031	225,000	144,444	369,444
2032	235,000	137,397	372,397
2033	245,000	129,744	374,744
2034	255,000	121,459	376,459
2035	265,000	112,519	377,519
2036	275,000	103,069	378,069
2037	285,000	93,091	378,091
2038	300,000	82,488	382,488
2039	310,000	71,431	381,431
2040	325,000	59,719	384,719
2041	335,000	47,344	382,344
2042	350,000	34,500	384,500
2043	365,000	21,094	386,094
2044	380,000	7,125	387,125
	<u>\$ 5,960,000</u>	<u>\$ 3,273,554</u>	<u>\$ 9,233,554</u>

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2019**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal Interest Due
2020	\$	\$	\$
2021	260,000	367,195	627,195
2022	265,000	356,265	621,265
2023	280,000	344,791	624,791
2024	290,000	332,663	622,663
2025	300,000	319,951	619,951
2026	315,000	306,501	621,501
2027	325,000	292,288	617,288
2028	345,000	279,738	624,738
2029	350,000	269,031	619,031
2030	365,000	257,475	622,475
2031	385,000	245,087	630,087
2032	400,000	231,537	631,537
2033	415,000	217,354	632,354
2034	435,000	202,458	637,458
2035	450,000	186,841	636,841
2036	470,000	170,438	640,438
2037	485,000	153,141	638,141
2038	505,000	134,909	639,909
2039	525,000	115,869	640,869
2040	550,000	95,653	645,653
2041	570,000	74,288	644,288
2042	590,000	51,959	641,959
2043	620,000	29,078	649,078
2044	455,000	8,625	463,625
	<u>\$ 9,950,000</u>	<u>\$ 5,415,703</u>	<u>\$ 15,365,703</u>

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2019**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2018
Morningstar Ranch Municipal Utility District No. 1 of Parker County Unlimited Tax Road Bonds - Series 2017	\$ 2,850,000	\$ 2,850,000
Morningstar Ranch Municipal Utility District No. 1 of Parker County Unlimited Tax Road Bonds - Series 2018	1,140,000	
Morningstar Ranch Municipal Utility District No. 1 of Parker County Unlimited Tax Utility Bonds - Series 2018	<u>5,960,000</u>	<u> </u>
TOTAL	<u>\$ 9,950,000</u>	<u>\$ 2,850,000</u>
 Bond Authority:	Utility Bonds	Road Bonds
Amount Authorized by Voters	\$ 73,000,000	\$ 28,200,000
Amount Issued	<u>5,960,000</u>	<u>3,990,000</u>
Remaining to be Issued	<u><u>\$ 67,040,000</u></u>	<u><u>\$ 24,210,000</u></u>
 Debt Service Fund cash and investment balances as of March 31, 2019:		<u><u>\$ 650,420</u></u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u><u>\$ 614,628</u></u>

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding March 31, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$	\$ 99,213	\$ 2,850,000	Amegy Bank Plano, TX
1,140,000		19,591	1,140,000	Amegy Bank Houston, TX
<u>5,960,000</u>		<u>109,494</u>	<u>5,960,000</u>	Amegy Bank Houston, TX
<u>\$ 7,100,000</u>	<u>\$ - 0 -</u>	<u>\$ 228,298</u>	<u>\$ 9,950,000</u>	
<u>Utility Refunding Bonds</u>	<u>Road Refunding Bonds</u>			
\$ 109,500,000	\$ 42,300,000			
<u>\$ 109,500,000</u>	<u>\$ 42,300,000</u>			

See accompanying independent auditor's report.

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

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 394,318	\$ 116,566	\$ 19,441
Miscellaneous Revenues	783	40	
TOTAL REVENUES	<u>\$ 395,101</u>	<u>\$ 116,606</u>	<u>\$ 19,441</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 121,770	\$ 56,249	\$ 27,097
Contracted Services	6,396	5,843	2,909
Other	6,483	6,360	2,531
TOTAL EXPENDITURES	<u>\$ 134,649</u>	<u>\$ 68,452</u>	<u>\$ 32,537</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 260,452</u>	<u>\$ 48,154</u>	<u>\$ (13,096)</u>
OTHER FINANCING SOURCES (USES)			
Developer Advances	<u>\$ -0-</u>	<u>\$ 31,000</u>	<u>\$ 7,500</u>
NET CHANGE IN FUND BALANCE	\$ 260,452	\$ 79,154	\$ (5,596)
BEGINNING FUND BALANCE (DEFICIT)	<u>75,283</u>	<u>(3,871)</u>	<u>1,725</u>
ENDING FUND BALANCE (DEFICIT)	<u>\$ 335,735</u>	<u>\$ 75,283</u>	<u>\$ (3,871)</u>

See accompanying independent auditor's report.

	Percentage of Total Revenues			
<u>2016</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 8,280	99.8 %	100.0 %	100.0 %	100.0 %
	0.2			
<u>\$ 8,280</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 13,929	30.8 %	48.2 %	139.4 %	168.2 %
2,278	1.6	5.0	15.0	27.5
<u>3,363</u>	<u>1.6</u>	<u>5.5</u>	<u>13.0</u>	<u>40.6</u>
<u>\$ 19,570</u>	<u>34.0 %</u>	<u>58.7 %</u>	<u>167.4 %</u>	<u>236.3 %</u>
\$ (11,290)	<u>66.0 %</u>	<u>41.3</u>	<u>(67.4)</u>	<u>(136.3) %</u>
<u>\$ 16,500</u>				
\$ 5,210				
<u>(3,485)</u>				
<u>\$ 1,725</u>				

See accompanying independent auditor's report.

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

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 333,389	\$	\$
Penalty and Interest	352		
Miscellaneous Revenues	<u>6,492</u>	<u>444</u>	<u></u>
TOTAL REVENUES	<u>\$ 340,233</u>	<u>\$ 444</u>	<u>\$</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 2,791	\$ 50	\$
Debt Service Interest and Fees	<u>228,728</u>	<u>33,071</u>	<u></u>
TOTAL EXPENDITURES	<u>\$ 231,519</u>	<u>\$ 33,121</u>	<u>\$</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 108,714</u>	<u>\$ (32,677)</u>	<u>\$</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	<u>\$ 410,034</u>	<u>\$ 148,543</u>	<u>\$</u>
NET CHANGE IN FUND BALANCE	\$ 518,748	\$ 115,866	\$
BEGINNING FUND BALANCE	<u>115,866</u>	<u></u>	<u></u>
ENDING FUND BALANCE	<u>\$ 634,614</u>	<u>\$ 115,866</u>	<u>\$ N/A</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

Percentage of Total Revenues					
2016	2019	2018	2017	2016	
\$	98.0 %	%	%	%	%
	0.1				
	1.9	100.0			
\$	100.0 %	100.0 %			
\$	0.8 %	11.3 %			
	67.2	7,448.4			
\$	68.0 %	7,459.7 %			
\$	32.0 %	(7,359.7) %	N/A %	N/A %	
\$					
\$					
\$	N/A				
N/A					
N/A					

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2019**

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

District Telephone Number - (972) 982-8450

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended March 31, 2019	Expense Reimbursements for the year ended March 31, 2019	Title
Theron Bryant	05/18 05/22 (Elected)	\$ 900	\$ -0-	President
John Dowdall	05/18 05/22 (Elected)	\$ -0-	\$ -0-	Vice President
Michael Franklin	05/16 05/20 (Elected)	\$ 900	\$ -0-	Secretary
Casey Tounget	05/16 05/20 (Elected)	\$ 450	\$ -0-	Assistant Secretary
Melissa Stripling	05/16 05/20 (Elected)	\$ 900	\$ -0-	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
August 30, 2018

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

See accompanying independent auditor's report.

**MORNINGSTAR RANCH MUNICIPAL UTILITY
DISTRICT NO. 1 OF PARKER COUNTY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2019**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2019</u>	<u>Title</u>
Coats Rose, P. C.	08/11/09	\$ 19,753 \$ 231,269	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	08/30/16	\$ 7,500 \$ 19,000	Auditor Bond Related
L&S District Services, LLC	08/11/09	\$ 6,396 \$ 2,100	Bookkeeper Bond Related
Robert W. Baird & Co.	08/24/15	\$ 195,611	Financial Advisor
Manhard Consulting	10/30/17	\$ 110,376	Engineer

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

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

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN