

OFFICIAL STATEMENT DATED MARCH 17, 2020

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

The Bonds have not been designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Not Qualified Tax-Exempt Obligations.”

NEW ISSUE – Book Entry Only

RATINGS: S&P Global Ratings (BAM Insured)..... “AA”
See “MUNICIPAL BOND INSURANCE” and “RATINGS”.

\$6,655,000
THE LAKES FRESH WATER SUPPLY DISTRICT OF DENTON COUNTY
(A Political Subdivision of the State of Texas Located within Denton County)
UNLIMITED TAX BONDS
SERIES 2020

Dated: April 1, 2020

Due: September 1, as shown on inside cover

The \$6,655,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”), are obligations of The Lakes Fresh Water Supply District of Denton County (the “District”) and are not obligations of the State of Texas; Denton County, Texas; the City of Aubrey, Texas; or any political subdivision or entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Denton County, Texas; the City of Aubrey, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the “Paying Agent/Registrar”). Interest accrues from April 1, 2020, and is payable September 1, 2020, and on each March 1 and September 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date and mailed by the Paying Agent/Registrar to registered owners (“Registered Owners”) as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date (the “Record Date”). The Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof.

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

See “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIPS” on inside cover.

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**.



The Bonds represent the first series of unlimited tax bonds to be issued by the District for the purpose of acquiring or constructing a water, sewer, and drainage system to serve the District (the “Utility System”). The District has previously issued one (1) series of unlimited tax bonds for the purpose of acquiring or constructing roads and improvements in aid thereof (the “Road System”). When issued, the Bonds will constitute valid and binding obligations of the District and be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. See “THE BONDS – Source of Payment.”

Investment in the Bonds is subject to special risk factors as described herein. 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 when, as, and if issued by the District subject, among other things, to the approval of the Attorney General of Texas and the approval of certain legal matters by Coats Rose, P.C., Dallas, Texas, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about April 22, 2020.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIPS
\$6,655,000 Unlimited Tax Bonds, Series 2020

\$3,595,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 51207M (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 51207M (b)
2022	\$195,000	5.500%	1.900%	BA2	2030 (c)	\$245,000	5.500%	2.450%	BJ3
2023	200,000	5.500%	2.000%	BB0	2031 (c)	250,000	5.500%	2.500%	BK0
2024	205,000	5.500%	2.100%	BC8	2032 (c)	260,000	3.000%	2.800%	BL8
2025	210,000	5.500%	2.200%	BD6	2033 (c)	265,000	3.000%	2.900%	BM6
2026 (c)	220,000	5.500%	2.250%	BE4	2034 (c)	275,000	3.000%	2.950%	BN4
2027 (c)	225,000	5.500%	2.300%	BF1	2035 (c)	285,000	3.000%	3.000%	BP9
2028 (c)	230,000	5.500%	2.350%	BG9	2036 (c)	290,000	3.000%	3.050%	BQ7
2029 (c)	240,000	5.500%	2.400%	BH7					

\$3,060,000 Term Bonds

\$2,310,000 Term Bonds Due September 1, 2043 (c)(d), Interest Rate: 3.000% (Price \$97.530) (a), CUSIP No. 51207M BX2 (b)

\$750,000 Term Bonds Due September 1, 2045 (c)(d), Interest Rate: 3.000% (Price \$96.541) (a), CUSIP No. 51207M BZ7 (b)

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- (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. Accrued interest from April 1, 2020, is to be added to the price.
- (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, 2026, 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, 2025, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – *Optional Redemption*."
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under "THE BONDS – Redemption Provisions – *Mandatory Redemption*."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel, for further information.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this 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 is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder 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. 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 such information actually comes to its attention, the other matters described in this Official Statement, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT – Updating of 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".

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

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT...	1	RISK FACTORS.....	12
INTRODUCTION.....	3	General.....	12
SALE AND DISTRIBUTION OF THE BONDS.....	3	Factors Affecting Taxable Values and Tax	
Award of the Bonds.....	3	Payments.....	12
Prices and Marketability.....	3	Competitive Nature of Dallas Residential	
Securities Laws.....	3	Housing Market.....	13
MUNICIPAL BOND INSURANCE.....	4	Tax Collection and Foreclosure Remedies.....	14
Bond Insurance Policy.....	4	Registered Owners' Remedies.....	14
Build America Mutual Assurance Company.....	4	Bankruptcy Limitation to Registered Owners'	
RATINGS.....	5	Rights.....	14
OFFICIAL STATEMENT SUMMARY.....	6	Marketability.....	15
INTRODUCTION.....	12	Future Debt.....	15

Continuing Compliance with Certain Covenants	15	Authority to Levy Taxes	39
Environmental Regulations	16	Property Tax Code and County-Wide Appraisal	
Changes in Tax Legislation	16	District	39
Bond Insurance Risk Factors	16	Property Subject to Taxation by the District	39
Global Health Emergency Risk	17	Tax Abatement	40
THE BONDS	17	Valuation of Property for Taxation	41
General	17	Reappraisal of Property after Disaster	41
Book-Entry-Only System	17	Tax Payment Installments after Disaster	41
Successor Paying Agent/Registrar	19	District and Taxpayer Remedies	41
Registration, Transfer and Exchange	19	Levy and Collection of Taxes	41
Funds	20	Rollback of Operation and Maintenance Tax	
Redemption Provisions	20	Rate	42
Record Date for Interest Payment	21	District's Rights in the Event of Tax	
Mutilated, Lost, Stolen or Destroyed Bonds	21	Delinquencies	43
Annexation	21	TAX DATA	44
Consolidation	22	General	44
Authority for Issuance	22	Tax Rate Limitation	44
Outstanding Bonds	22	Maintenance Tax	44
Short-Term Debt	22	Additional Penalties	44
Source of Payment	22	Tax Rate Calculations	44
Issuance of Additional Debt	23	Estimated Overlapping Taxes	45
No Arbitrage	23	Historical Tax Collections	45
Defeasance	23	Tax Rate Distribution	45
Legal Investment and Eligibility to Secure		Taxable Assessed Valuation Summary	46
Public Funds in Texas	24	Principal Taxpayers	46
Registered Owners' Remedies	25	LEGAL MATTERS	47
Use and Distribution of Bond Proceeds	26	Legal Opinions	47
THE DISTRICT	27	Legal Review	47
Authority	27	No-Litigation Certificate	47
Description	27	No Material Adverse Change	48
Management of the District	27	TAX MATTERS	48
Investment Policy	27	Opinion	48
Consultants	28	Collateral Federal Income Tax Consequences	49
Historical Operations of the System	29	State, Local and Foreign Taxes	49
DEVELOPMENT OF THE DISTRICT	30	Tax Accounting Treatment of Original Issue	
Status of Development within the District	30	Discount and Premium Bonds	49
Homebuilders within the District	30	Not Qualified Tax-Exempt Obligations	50
PHOTOGRAPHS TAKEN WITHIN THE DISTRICT	31	CONTINUING DISCLOSURE OF INFORMATION	50
THE DEVELOPERS AND PRINCIPAL		Annual Reports	51
LANDOWNERS	33	Event Notices	51
Role of the Developer	33	Availability of Information from EMMA	52
The Developers	33	Limitations and Amendments	52
Principal Landowners	34	Compliance with Prior Undertakings	52
THE ROAD SYSTEM	34	OFFICIAL STATEMENT	52
THE UTILITY SYSTEM	34	General	52
Regulation	34	Experts	53
Description of the Utility System	35	Certification as to Official Statement	53
DISTRICT DEBT	36	Updating of Official Statement	53
Debt Service Requirement Schedule	36	CONCLUDING STATEMENT	54
Bonded Indebtedness	37		
Direct and Estimated Overlapping Debt		APPENDIX A Financial Statements of the District	
Statement	38	APPENDIX B Specimen Municipal Bond Insurance	
Debt Ratios	38	Policy	
TAXING PROCEDURES	39		

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by The Lakes Fresh Water Supply District of Denton County (the "District") of its \$6,655,000 Unlimited Tax Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Constitution and the general laws of the State of Texas, including particularly Chapters 49, 53, and 54 of the Texas Water Code, as amended; (ii) an election held within the District on November 6, 2018; (iii) an order adopted by the Board of Directors of the District (the "Board") on the date of the sale of the Bonds (the "Bond Order"); and (iv) an order issued by the Texas Commission on Environmental Quality (the "TCEQ").

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

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

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 3.585422%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

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

Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser. The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering 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 United States Securities and Exchange Commission 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.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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 December 31, 2019, and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$534.9 million, \$132.5 million and \$402.4 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 the heading “MUNICIPAL BOND INSURANCE”.

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditsights/. (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 or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

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

RATINGS

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

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

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

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OFFICIAL STATEMENT SUMMARY

The following 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 summary should not be detached and should be used in conjunction with the more complete information contained herein. A full review should be made of this entire Official Statement and of the documents summarized or described herein.

THE BONDS

The District.....	The Lakes Fresh Water Supply District of Denton County (the "District"), a political subdivision of the State of Texas, is located in Denton County, Texas. See "THE DISTRICT."
The Bonds.....	The District's \$6,655,000 Unlimited Tax Bonds, Series 2020 (the "Bonds"), are dated April 1, 2020. Interest accrues from April 1, 2020, at the rates set forth on the inside cover page hereof, and is payable September 1, 2020, and each March 1 and September 1 thereafter until the earlier of stated maturity or redemption. The Bonds mature on September 1 in each of the years and in the principal amounts set forth on the inside cover page hereof. See "THE BONDS."
Redemption Provisions	<p>The Bonds maturing on or after September 1, 2026, are subject to redemption, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – <i>Optional Redemption</i>."</p> <p>The Bonds that mature on September 1 in the years 2043 and 2045 are term bonds that are also subject to the mandatory redemption provisions set out herein under "THE BONDS – Redemption Provisions – <i>Mandatory Redemption</i>."</p>
Book-Entry-Only System.....	The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners (hereinafter defined) thereof. Principal of and interest on the Bonds will be payable by Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"), to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "THE BONDS – Book-Entry-Only System."
Source of Payment	The Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, unlimited as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas; Denton County, Texas; the City of Aubrey, Texas; or any entity other than the District. See "THE BONDS – Source of Payment."
Outstanding Bonds	The District has previously issued its \$7,285,000 Unlimited Tax Road Bonds, Series 2019. As of the date hereof, \$7,285,000 principal amount of such bonds remains outstanding (the "Outstanding Bonds").

Short-Term Debt.....	The District has issued its \$2,700,000 Bond Anticipation Note, Series 2019, dated August 20, 2019 (the “BAN”), and distributed proceeds from the sale of the BAN to finance Utility System (herein defined) facilities as described below. The BAN accrues interest at a rate of 3.00% per year (computed on the basis of a 365-day year) and matures on August 19, 2020, unless called for redemption prior to maturity, and is payable solely from the proceeds of the Bonds.
Use of Proceeds	Proceeds from sale of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developers (herein defined) for a portion of the costs set out herein under “THE BONDS – Use and Distribution of Bond Proceeds.” Proceeds of the Bonds will also be used to reimburse the Developers for the remaining portion of costs not reimbursed by the BAN, and to pay eighteen (18) months of capitalized interest on the Bonds, developer interest, and costs of issuance of the Bonds. See “THE BONDS – Use and Distribution of Bond Proceeds.”
Payment Record.....	The Bonds represent the first series of unlimited tax bonds to be issued by the District for the purpose of acquiring a water, sewer, and drainage system (the “Utility System”) to serve the District. The District has previously issued one (1) series of unlimited tax bonds for the purpose of constructing or acquiring roads and improvements in aid thereof (the “Road System”) to serve the District. The District has never defaulted on the timely payment of principal and interest on its Outstanding Bonds.
Authority for Issuance.....	<p>The Bonds are the first series of bonds to be issued by the District out of an aggregate \$202,454,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing a Utility System to serve the district. The District has also authorized an aggregate \$303,681,000 unlimited tax bonds for the refunding of such bonds. Following the issuance of the Bonds, \$195,799,000 principal amount of unlimited tax bonds for the Utility System will remain authorized but unissued. The District’s voters have also authorized the District’s issuance of an aggregate \$219,696,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a Road System serving the District and \$329,544,000 principal amount of unlimited tax bonds for the refunding of such bonds.</p> <p>The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Constitution and the general laws of the State of Texas, including particularly Chapters 49, 53, and 54 of the Texas Water Code, as amended; (ii) an election held within the District on November 6, 2018; (iii) an order adopted by the Board of Directors of the District on the date of the sale of the Bonds (the “Bond Order”); and (iv) an order issued by the Texas Commission on Environmental Quality (the “TCEQ”). See “THE BONDS – Authority for Issuance.”</p>
Not Qualified Tax-Exempt Obligations	The District has not designated the Bonds as “qualified tax-exempt obligations”. See “TAX MATTERS – Not Qualified Tax-Exempt Obligations.”
Municipal Bond Insurance	Build America Mutual Assurance Company. See “MUNICIPAL BOND INSURANCE.”
Ratings.....	S&P Global Ratings (BAM Insured) – “AA.” See “RATINGS.”

Legal Opinion Coats Rose, P.C., Dallas, Texas. See “LEGAL MATTERS.”
 Financial Advisor Robert W. Baird & Co. Incorporated, Houston, Texas.
 Disclosure Counsel McCall, Parkhurst & Horton L.L.P., Houston, Texas.

THE DISTRICT

Description The District is located approximately 35 miles north of the central business district of the City of Dallas, Texas, and approximately 4 miles south of the City of Aubrey, Texas. The District lies entirely within the extraterritorial jurisdiction the City of Aubrey, Texas. The District was created on June 18, 2005, by special act of the 79th Texas Legislature. The creation and operation of the District is pursuant to Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution and Chapter 8125, Texas Special District Local Laws Code. The District operates under Chapters 49, 53, and 54 of the Texas Water Code, as amended. The District consists of approximately 1,855.56 total acres. See “THE DISTRICT.”

Development within the District The District encompasses approximately 1,856 acres of land. To date, approximately 179 acres (813 lots) have been developed as the single-family residential subdivision known as Silverado, Phases 1A, 1B, 1C, 2 and 3, approximately 4 acres have been developed for commercial purposes, approximately 2 acres have been developed as a fire station, and approximately 10 acres have been developed as an amenity center. As of January 23, 2020, the District included 362 completed homes (approximately 311 occupied, 47 unoccupied, and 4 model homes); 59 homes under construction; and 392 vacant developed lots.

In addition, approximately 42 acres (186 lots) are currently under development as the single-family subdivision of Silverado, Phase 4, approximately 42 acres (168 lots) are currently under development as the single-family subdivision of Aspen Meadows, Phase 1, and approximately 15 acres are currently under development for a school site. According to the Developers (herein defined), Aspen Meadows, Phase 1 is anticipated to be completed by March 2020 and Silverado, Phase 4 is anticipated to be completed by September 2020.

The remaining land within the District consists of approximately 947 acres of undeveloped land available for future development and approximately 615 undevelopable acres consisting of the Upper Trinity Regional Water District lake, detention ponds, floodplain and greenbelts and open space. See “THE DEVELOPERS AND PRINCIPAL LANDOWNERS,” “DEVELOPMENT OF THE DISTRICT,” and “THE DISTRICT.”

Developers and Principal Landowners Currently, D.R. Horton-Texas, LTD., a Texas limited partnership (“D.R. Horton”), is developing the single-family residential subdivision of Silverado and Aspen 2931, LLC, a Texas limited liability company (“Aspen”), is developing the single-family residential subdivision known as Aspen Meadows. D.R. Horton and Aspen are referred to herein as the “Developers.” See “THE DEVELOPERS AND PRINCIPAL LANDOWNERS” and “DEVELOPMENT OF THE DISTRICT.”

Homebuilders within the District D.R. Horton is actively constructing new homes in the District within Silverado. New homes are currently being constructed in Silverado and range in price from approximately \$225,000 to \$342,000 and in size from approximately 1,496 to 3,382 square feet. Aspen has contracts with Gehan Homes, Ltd., Impression Homes, LLC, and Lennar Homes of Texas Land and Construction, Ltd. for homebuilding in Aspen Meadows, of which homebuilding is anticipated to begin in April 2020. See "DEVELOPMENT OF THE DISTRICT – Homebuilders within the District."

RISK FACTORS

THE DISTRICT'S TAX IS LEVIED ONLY ON THE PROPERTY LOCATED WITHIN THE DISTRICT. THEREFORE, THE INVESTMENT SECURITY AND QUALITY OF THE BONDS IS DEPENDENT UPON THE SUCCESSFUL DEVELOPMENT OF PROPERTY LOCATED WITHIN THE DISTRICT AND THE PAYMENT AND COLLECTION OF TAXES LEVIED THEREON. THE BONDS ARE 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
(UNAUDITED)

2019 Taxable Assessed Valuation.....	\$ 60,227,633	(a)
Estimate of Value as of January 23, 2020	\$ 129,000,000	(b)
Direct Debt:		
Outstanding Bonds.....	\$ 7,285,000	
The Bonds	<u>\$ 6,655,000</u>	
Total.....	\$ 13,940,000	
Estimated Overlapping Debt	<u>\$ 4,576,486</u>	(c)
Total Direct and Estimated Overlapping Debt	\$ 18,516,486	(c)
Direct Debt Ratios:		
As a percentage of the 2019 Taxable Assessed Valuation.....	23.15	%
As a percentage of the Estimate of Value as of January 23, 2020	10.81	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of the 2019 Taxable Assessed Valuation.....	30.74	%
As a percentage of the Estimate of Value as of January 23, 2020	14.35	%
Utility System Debt Service Fund Balance (as of Delivery of the Bonds).....	\$ 449,213	(d)
Road System Debt Service Fund Balance (as of January 14, 2020)	\$ 287,643	
General Operating Fund Balance (as of January 14, 2020)	\$ 437,601	
2019 Tax Rate per \$100 of Taxable Assessed Valuation		
Utility System Debt Service	\$0.00	(e)
Road System Debt Service	\$0.77	
Maintenance and Operation.....	<u>\$0.23</u>	
Total.....	\$1.00	
Average Annual Debt Service Requirement (2020–2045)	\$ 830,379	(f)
Maximum Annual Debt Service Requirement (2022).....	\$ 904,344	(f)
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Average Annual Debt Service Requirement on the Outstanding Bonds and the Bonds (2020–2045)		
Based on the 2019 Taxable Assessed Valuation at 95% Tax Collections	\$1.46	
Based on the Estimate of Value as of January 23, 2020, at 95% Tax Collections.....	\$0.68	
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement on the Outstanding Bonds and the Bonds (2022)		
Based on the 2019 Taxable Assessed Valuation at 95% Tax Collections	\$1.59	
Based on the Estimate of Value as of January 23, 2020, at 95% Tax Collections.....	\$0.74	
Single-Family Homes (including 59 homes under construction) as of January 23, 2020	362	(g)

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- (a) Represents the taxable assessed valuation of all taxable property in the District as of January 1, 2019, as provided by the Denton Central Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
 - (b) Provided by the Denton Central Appraisal District for informational purposes only, this amount is an estimate of the taxable value of all taxable property located within the District as of January 23, 2020, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District from January 1, 2019, through January 23, 2020. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
 - (c) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
 - (d) Represents eighteen (18) months of capitalized interest to be deposited into the Utility System Debt Service Fund upon closing 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.
 - (e) The District is authorized to levy separate debt service taxes for Utility System debt service and Road System debt service, both of which are unlimited as to rate or amount. The District anticipates that it will levy a tax for payment of debt service on bonds issued for Utility System purposes (including the Bonds) in 2020. See "THE BONDS – Authority for Issuance."
 - (f) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule."
 - (g) As of January 23, 2020, the District includes 59 homes under construction. See "DEVELOPMENT OF THE DISTRICT – Status of Development within the District."

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\$6,655,000

**THE LAKES FRESH WATER SUPPLY DISTRICT OF DENTON COUNTY
UNLIMITED TAX BONDS
SERIES 2020**

INTRODUCTION

This Official Statement of The Lakes Fresh Water Supply District of Denton County (the “District”) is provided to furnish information with respect to the issuance by the District of its \$6,655,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Constitution and the general laws of the State of Texas, including particularly Chapters 49, 53, and 54 of the Texas Water Code, as amended; (ii) an election held within the District on November 6, 2018; (iii) an order adopted by the Board of Directors of the District (the “Board”) on the date of the sale of the Bonds (the “Bond Order”); and (iv) an order issued by the Texas Commission on Environmental Quality (the “TCEQ”).

This Official Statement includes descriptions of the Bonds, the Developers (herein defined), the Bond Order, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, Texas 75254, upon payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

RISK FACTORS

General

The Bonds, which are obligations of the District and not of the State of Texas, Denton County, Texas, the City of Aubrey, Texas (the “City”), or any political subdivision other than the District, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. Therefore, 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. See “DEVELOPMENT OF THE DISTRICT,” “TAX DATA,” and “TAXING PROCEDURES.”

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is directly related to the vitality of the residential housing industry in the Dallas metropolitan area. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development or home construction in the District.

Developers and Principal Landowners: There is no commitment by, or legal requirement of, the Developers, the principal landowners within the District, or any other landowner in 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 homebuilder 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 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 OF THE DISTRICT,” “THE DEVELOPERS AND PRINCIPAL LANDOWNERS,” and “TAX DATA – Principal Taxpayers.”

Dependence on Principal Taxpayers: The ability of any principal landowner to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District’s ability to meet its debt service obligations. As illustrated in this Official Statement under the caption “TAX DATA – Principal Taxpayers,” for the 2019 tax year, the District’s principal taxpayers owned property located within the District, the aggregate assessed valuation of which comprised approximately 61.54% of the District’s total taxable assessed valuation. D.R. Horton-Texas, LTD., the District’s top taxpayer for the 2019 tax year and a developing entity within the District, owns taxable property representing approximately 50.07% of the District’s total taxable assessed valuation. See “THE DEVELOPERS AND PRINCIPAL LANDOWNERS.” In the event that the Developers, any other taxpayer, or any combination of taxpayers should default in the payment of taxes in an amount which exceeds the District’s debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its interest and sinking fund. See “TAX DATA – Principal Taxpayers” and “TAXING PROCEDURES – Levy and Collection of Taxes.”

Maximum Impact on District Tax Rates: Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The Taxable Assessed Valuation as of January 1, 2019, of all taxable property located within the District is \$60,227,633, and the Estimate of Value as of January 23, 2020, is \$129,000,000. See “TAX DATA.” After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds and the Bonds will be \$904,344 (2022), and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be \$830,379 (2020–2045). Assuming no decrease to the District’s Taxable Assessed Valuation as of January 1, 2019, tax rates of \$1.59 and \$1.46 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no decrease from the Estimate of Value as of January 23, 2020, tax rates of \$0.74 and \$0.68 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

In 2019, the District levied a total tax rate of \$1.00 per \$100 of taxable assessed valuation composed of a tax rate of \$0.23 per \$100 of taxable assessed valuation for maintenance and operations and \$0.77 per \$100 of taxable assessed valuation for Road System debt service. The District did not levy a tax rate for Utility System debt service in 2019; however, the District anticipates that it will levy such tax rate in 2020 for payment of debt service on the Bonds. The District is authorized to levy separate debt service taxes, both of which unlimited as to rate or amount, for road debt and water, sewer, and drainage debt. The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

Competitive Nature of Dallas Residential Housing Market

The housing industry in the Dallas area is very competitive, and the District can give no assurance that the building programs which are planned by any homebuilder will be continued or completed. The respective competitive position of the homebuilders listed herein and any other developer or homebuilder which might attempt future home building or development projects in the District, the sale of developed lots or in the construction and sale of single-family residential units, 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 Collection and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by difficulties in collecting ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures; (b) a bankruptcy court's stay of tax collection proceedings against a taxpayer; (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property; or (d) the taxpayer's right to redeem the property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. See "TAXING PROCEDURES".

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.

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners of the bonds ("Registered Owners") have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of defaults and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights and creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

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

The District may not be placed into bankruptcy involuntarily.

Marketability

The District has no understanding (other than the initial reoffering yields) with the winning bidder for the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold, or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

At an election held within the District on November 6, 2018, voters of the District authorized the District's issuance of a total of \$202,454,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring a water, sewer and drainage system serving the District (the "Utility System") as well as a total of \$303,681,000 principal amount of unlimited tax bonds for the purpose of refunding such bonds. The District has also authorized the issuance of \$219,696,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring a road system serving the District (the "Road System") and \$329,544,000 principal amount of unlimited tax bonds for the purpose of refunding such bonds.

After issuance of the Bonds, the District has the right to issue the remaining authorized but unissued unlimited tax bonds as follows: \$195,799,000 principal amount for the Utility System; \$303,681,000 principal amount for the refunding of such bonds; \$212,411,000 principal amount for the Road System; and \$329,544,000 principal amount for the refunding of such bonds. The District may also issue any additional bonds as may hereafter be approved by both the Board and the voters of the District. The District also has the right to issue certain other additional bonds, revenue bonds, special project bonds, and other obligations as described in the Bond Order. See "THE BONDS – Issuance of Additional Debt."

The District's issuance of the Bonds and the remaining \$195,799,000 principal amount of unlimited tax bonds for the Utility System shall be subject to prior approval by the TCEQ. The District's issuance of the remaining \$212,411,000 principal amount of unlimited tax bonds for the Road System is not subject to approval by the TCEQ.

Following issuance of the Bonds, the District will owe the Developers approximately \$15,300,000 for the expenditures that the Developers have incurred to date for construction of the Utility System and the Road System. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt-to-property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

The District expects to issue additional debt in the third quarter of 2020. The amount of the bonds to be issued is unknown at this time.

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 "TAX MATTERS."

Environmental Regulations

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.

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.

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 a bond insurance policy (the "Insurance Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of optional redemption, 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 optional redemption. The Insurance Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the 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 provider of the Insurance Policy, if any (the "Bond Insurer"), at such time and in such amounts as would have been due absent 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 Insurance Policy, the Bonds are payable solely from the moneys received pursuant to the applicable Bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such

event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See “MUNICIPAL BOND INSURANCE” and “RATINGS.”

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” and “RATINGS” herein for further information provided by the Bond Insurer and the Insurance Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Global Health Emergency Risk

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 13, 2020, President Donald Trump declared a national emergency to unlock federal funds to help states and local governments fight the pandemic. The current spread of COVID-19 is altering the behavior of businesses and people in a manner that is having negative effects on economic activity, and therefore may adversely affect the financial condition of the District, either directly or indirectly.

THE BONDS

General

The following is a description of some of the 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 written request made to Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, Texas 75254.

The Bonds are dated April 1, 2020, with interest payable on September 1, 2020, and each March 1 and September 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. The Bonds are fully registered bonds maturing on September 1 of the years shown on the inside cover page of this Official Statement. Principal of the Bonds will be payable to the registered owners (the “Registered Owners”) at maturity or redemption upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the “Paying Agent/Registrar”). Interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to Registered Owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the “Record Date”) or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Book-Entry-Only System

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

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

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

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

Successor Paying Agent/Registrar

Provision is made in the Bond Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Houston, Texas. 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. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be

made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Funds

The Bond Order establishes the District's fund for payment of debt service on unlimited tax bonds issued by the District for the Utility System, such as the Bonds, and any additional unlimited tax bonds issued for such purpose (the "Utility System Debt Service Fund"). Accrued interest on the Bonds as well as eighteen (18) months of capitalized interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the Utility System Debt Service Fund. Additionally, tax proceeds, after deduction for collection costs, will be placed in the Utility System Debt Service Fund and used solely to pay principal of and interest on the Bonds, any additional bonds payable from taxes that the District may hereafter issue for the Utility System, and fees of the Paying Agent/Registrar, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due. The Utility System Debt Service Fund constitutes a trust fund for the benefit of the owners of the Bonds and any additional unlimited tax bonds issued by the District for Utility System purposes. The District has previously established a separate fund for payment of debt service on unlimited tax bonds issued by the District for the Road System and any additional unlimited tax bonds issued for such purpose (the "Road System Debt Service Fund"). Bonds issued for the Utility System and the Road System are each supported by a separate unlimited tax levied by the District. Amounts on deposit in the Utility System Debt Service Fund may not be used to pay debt service on bonds issued by the District for the Road System. Amounts on deposit in the District's debt service fund established for bonds issued for the Road System may not be used to pay debt service on bonds issued for the Utility System, including the Bonds.

Redemption Provisions

Optional Redemption

Bonds maturing on September 1, 2026, 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, 2025, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption

The Bonds that mature on September 1 in the years 2043 and 2045 are term bonds (the "Term Bonds") and shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), on September 1 in each of the years and in the principal amounts set forth in the following schedule:

\$2,310,000 Term Bonds Maturing on September 1, 2043

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2037	\$300,000
September 1, 2038	310,000
September 1, 2039	320,000
September 1, 2040	330,000
September 1, 2041	340,000
September 1, 2042	350,000
September 1, 2043 (Maturity)	360,000

\$750,000 Term Bonds Maturing on September 1, 2045

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2044	\$370,000
September 1, 2045 (Maturity)	380,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bonds or portions of the Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Order. The principal amount of the Term Bonds to be mandatorily redeemed on such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Record Date for Interest Payment

Interest on the Bonds will be paid to the registered owner appearing on the registration and transfer books of the Paying Agent/Registrar at the close of business on the "Record Date" (the fifteenth calendar day of the month next preceding each interest payment date) and shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid, to the address of the registered owner recorded in the registration and transfer books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the principal payment office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

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

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System is 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 Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Annexation

The District lies within the extraterritorial jurisdiction of the City. Under current legislation, the District may be annexed and dissolved by the City only if (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the land owners, consenting to annexation. If the District is annexed, the City must assume the District's assets and obligations (including the Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and, therefore, the District makes no representation that the City will ever attempt to annex the

District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should such annexation occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes, and other obligations. If each district assumes the other's bonds, notes, and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

Authority for Issuance

The Bonds are the first series of bonds to be issued by the District out of an aggregate \$202,454,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring or constructing a Utility System to serve the District. The District has also authorized an aggregate \$303,681,000 principal amount of unlimited tax bonds for the refunding of such bonds. Following the issuance of the Bonds, \$195,799,000 principal amount of unlimited tax bonds for the Utility System will remain authorized but unissued.

The District's voters have also authorized the District's issuance of an aggregate \$219,696,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a Road System to serve the District and \$329,544,000 principal amount of unlimited tax bonds for the refunding of such bonds.

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Constitution and the general laws of the State of Texas, including particularly Chapters 49, 53, and 54 of the Texas Water Code, as amended; (ii) an election held within the District on November 6, 2018; (iii) the Bond Order; and (iv) an order issued by the TCEQ. See "THE BONDS – Authority for Issuance.

Outstanding Bonds

The District has previously issued its \$7,285,000 Unlimited Tax Road Bonds, Series 2019. As of the date hereof, \$7,285,000 principal amount of such bonds remains outstanding (the "Outstanding Bonds").

Short-Term Debt

The District has issued its \$2,700,000 Bond Anticipation Note, Series 2019, dated August 20, 2019 (the "BAN"), and distributed proceeds from the sale of the BAN to finance Utility System facilities as described under "THE BONDS – Use and Distribution of Bond Proceeds". The BAN accrues interest at a rate of 3.00% per year (computed on the basis of a 365-day year) and matures on August 19, 2020, unless called for redemption prior to maturity, and is payable solely from the proceeds of the Bonds.

Source of Payment

The Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Paying Agent/Registrar fees, and fees of the Denton Central Appraisal District. Tax proceeds, after deduction for collection costs, will be placed in the Utility System Debt Service Fund and used solely to pay principal of and interest on the Bonds, any additional bonds payable from taxes that the District may hereafter issue for the Utility System, and fees of the Paying Agent/Registrar. Bonds issued for the Utility System and the Road System are each supported by a separate unlimited tax levied by the District. Amounts on deposit in the Utility System Debt Service Fund may not be used to pay debt service on bonds issued by the District for the Road System. Amounts on deposit in the Road System Debt Service Fund may not be used to pay debt service on bonds issued for the Utility System, including the Bonds.

The Bonds are obligations solely of the District and are not the obligations of the State of Texas; Denton County, Texas; the City; or any entity other than the District.

Issuance of Additional Debt

The District's voters have authorized the District's issuance of the following: \$202,454,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System; \$303,681,000 principal amount of unlimited tax bonds for the purpose of refunding such bonds; \$219,696,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System; and \$329,544,000 principal amount of unlimited tax bonds for the purpose of refunding such bonds; and could authorize additional amounts.

The Bonds are the first series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the Utility System. The District has previously issued one (1) series of unlimited tax bonds for the purpose of acquiring or constructing the Road System. Following issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued; \$195,799,000 for the purpose of acquiring or constructing the Utility System; \$303,681,000 for the purpose of refunding such bonds; \$212,411,000 for the purpose of acquiring or constructing the Road System; and \$329,544,000 for the purpose of refunding such bonds .

The Bond Order imposes no limitation on the amount of additional parity bonds that may be issued by the District, if authorized by the District's voters and, in the case of bonds for the Utility System (such as the Bonds), approved by the TCEQ. The District's issuance of the remaining \$212,411,000 principal amount of unlimited tax bonds for acquiring or constructing the Road System is not subject to approval by the TCEQ.

Following issuance of the Bonds, the District will owe the Developers approximately \$15,300,000 for expenditures to construct the Utility System and the Road System. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt-to-property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed fire protection plan; (b) approval of the fire plan by the TCEQ; (c) approval of the fire plan by the voters of the District; and (d) approval of bonds, if any, by the Attorney General of Texas. The District submitted a fire protection plan to the TCEQ which was approved in November 2019. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt-to-property ratios and might adversely affect the investment security of the Bonds.

No Arbitrage

The District will certify, on the date of delivery of the Bonds, that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest, and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public

Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (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, and which 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.

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

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.

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of defaults and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights and creditors of political subdivisions, such as the District.

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Use and Distribution of Bond Proceeds

Proceeds from sale of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developers for a portion of the costs set out below. Proceeds of the Bonds will also be used to reimburse the Developers for the remaining portion of costs not reimbursed by the BAN, to pay eighteen (18) months of capitalized interest on the Bonds, developer interest, and costs of issuance of the Bonds as described below:

Construction Costs

A. Mustang Special Utility District Water Plant Payments	\$ 4,037,738
B. Land Costs – Phase 1A and 1B Detention Ponds	<u>1,111,130</u>
Total Construction Costs	\$ 5,148,868

Non-Construction Costs

A. Bond Counsel Fees	\$ 158,100
B. Fiscal Agent Fees	133,100
C. Interest	
1. Capitalized Interest (18 Months)	382,725
2. Developer Interest	298,478
3. BAN Interest	55,350
D. Bond Discount	199,650
E. Bond Issuance Expense	35,374
F. BAN Issuance Expense	68,286
G. Bond Engineering Report	54,138
H. TCEQ Fee	16,638
I. Attorney General Fee (0.10%)	6,655
J. Market Study	5,500
K. Contingency (a)	<u>92,138</u>
Total Non-Construction Costs	\$ 1,506,132

TOTAL BOND ISSUE REQUIREMENT **\$ 6,655,000**

(a) Represents the sum of the difference between the estimated and actual costs of capitalized interest and BAN interest on the Bonds.

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

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THE DISTRICT

Authority

The District was created on June 18, 2005, by special act of the 79th Texas Legislature. The creation and operation of the District is pursuant to Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution and Chapter 8125, Texas Special District Local Laws Code. The District operates under Chapters 49, 53, and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and, the construction, operation and maintenance of macadamized, graveled or paved roads and turnpikes and improvements in aid thereof. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, subject to the approval of the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, utilize non-tax revenues to develop and finance parks and recreational facilities.

Other than with respect to the construction and financing of roads and improvements in aid thereof, the TCEQ exercises continuing supervisory jurisdiction over the District. Construction of the District's water and sanitary sewer system is subject to the regulatory jurisdiction of additional governmental agencies.

Description

The District is located approximately 35 miles north of the central business district of the City of Dallas, Texas, and approximately 4 miles south of the City of Aubrey, Texas. The District lies entirely within the extraterritorial jurisdiction the City.

At the time of creation, the District contained approximately 411.17 acres. After an annexation of acreage in 2013, an exclusion of acreage in 2018, and an annexation of acreage in 2019, the District now contains approximately 1,855.56 total acres.

Management of the District

The District is governed by the Board consisting of five directors, who have control over and management supervision of all affairs of the District. Each member of the Board owns property in the District. Members of the Board serve four-year staggered terms. Elections are held in May of even-numbered years. The current members and officers of the Board are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Debbie Reuther	President	2022
Paula Barnhouse	Vice President	2020
Travis Friesenhahn	Secretary	2020
Sukhui Gibb	Assistant Secretary	2020
Blair Thomas	Assistant Secretary	2022

Investment Policy

The District has adopted an Investment Policy (the "Policy") as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The District's goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation and secured by collateral authorized by the Act, and in TexPool and

TexStar, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the portfolio.

Consultants

Although the District does not have a general manager or any other full-time employees, it has contracted for utility system operating, bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

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

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

Utility System Operator: The District's operator is Mustang Special Utility District.

Auditor: The District's financial statements for the fiscal year ended January 31, 2019, were audited by McCall Gibson Swedlund Barfoot PLLC, a copy of which is attached as "APPENDIX A."

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

Bond Counsel: The District has engaged Coats Rose, P.C., Dallas, Texas, as general counsel to the District and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. The fees to be paid Bond Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds. See "LEGAL MATTERS."

Disclosure Counsel: McCall, Parkhurst & Horton L.L.P., Houston, Texas, serves as Disclosure Counsel to the District for issuance of the Bonds. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor: Robert W. Baird & Co. Incorporated is employed as financial advisor to the District in connection with the issuance of the Bonds (the "Financial Advisor"). The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance 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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Historical Operations of the System

The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ. The figures for fiscal years ended January 31, 2018, and January 31, 2019, were obtained from the District's audited financial statements. See "APPENDIX A." The figures for the period ending February 13, 2020, are unaudited and were obtained from the District's bookkeeper.

		Fiscal Year Ended 01/31	
	2020 (a)	2019	2018
<u>Revenues</u>			
Property Taxes	\$ 173,526	\$ 82,930	\$ 393,441
Miscellaneous Revenues	<u>5,148</u>	<u>3,102</u>	<u>-</u>
Total Revenues	<u>\$ 178,674</u>	<u>\$ 86,032</u>	<u>\$ 393,441</u>
<u>Expenditures</u>			
Administrative:			
Professional Fees	\$ 59,425	\$ 106,500	\$ 21,263
Contracted Services	8,397	3,364	3,166
Other	<u>18,078</u>	<u>15,455</u>	<u>11,730</u>
Total Expenditures	<u>\$ 85,900</u>	<u>\$ 125,319</u>	<u>\$ 36,159</u>
Revenues Over Expenditures	\$ 92,774	\$ (39,287)	\$ 357,282

(a) Unaudited as of February 13, 2020. Figures obtained from the District's bookkeeper.

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DEVELOPMENT OF THE DISTRICT

Status of Development within the District

The District encompasses approximately 1,856 acres of land. To date, approximately 179 acres (813 lots) have been developed as the single-family residential subdivision known as Silverado, Phases 1A, 1B, 1C, 2 and 3, approximately 4 acres have been developed for commercial purposes, approximately 2 acres have been developed as a fire station, and approximately 10 acres have been developed as an amenity center. As of January 23, 2020, the District included 362 completed homes (approximately 311 occupied, 47 unoccupied, and 4 model homes); 59 homes under construction; and 392 vacant developed lots.

In addition, approximately 42 acres (186 lots) are currently under development as the single-family subdivision of Silverado, Phase 4, approximately 42 acres (168 lots) are currently under development as the single-family subdivision of Aspen Meadows, Phase 1, and approximately 15 acres are currently under development for a school site. According to the Developers (herein defined), Aspen Meadows, Phase 1 is anticipated to be completed by March 2020 and Silverado, Phase 4 is anticipated to be completed by September 2020.

The remaining land within the District consists of approximately 947 acres of undeveloped land available for future development and approximately 615 undevelopable acres consisting of the Upper Trinity Regional Water District lake, detention ponds, floodplain and greenbelts and open space.

The following shows the status of construction of single-family housing within the District as of January 23, 2020:

<u>Silverado</u>	<u>Section Acreage</u>	<u>Section Lots</u>	<u>Homes Completed</u>	<u>Homes Under Construction</u>	<u>Vacant Lots</u>
Phase 1A & 1B	68	273	205	15	53
Phase 1C	28	127	30	36	61
Phase 2	26	142	127	5	10
Phase 3	<u>57</u>	<u>271</u>	<u>0</u>	<u>3</u>	<u>268</u>
Totals	179	813	362	59	392
Residential Developed	179				
Residential Under Construction	84				
Commercial	4				
Amenity Center	10				
Fire Station	2				
School Site	15				
Undevelopable	615				
Remaining Developable	947				
District Total	1,856				

Homebuilders within the District

D.R. Horton (as defined herein) is actively constructing new homes in the District within Silverado. New homes currently being constructed in Silverado range in price from approximately \$225,000 to \$342,000 and in size from approximately 1,496 to 3,382 square feet. Aspen (as defined herein) has contracts with Gehan Homes, Ltd., Impression Homes, LLC, and Lennar Homes of Texas Land and Construction, Ltd. for homebuilding in Aspen Meadows, of which homebuilding is anticipated to begin in April 2020. See "THE DEVELOPERS AND PRINCIPAL LANDOWNERS."

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(January 2020)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(January 2020)



THE DEVELOPERS AND PRINCIPAL LANDOWNERS

Role of the Developer

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing 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 (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater, and drainage facilities in a utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

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

Neither the developer nor any affiliate entity is obligated to pay principal of or interest on the Bonds. Furthermore, neither the developer nor any affiliate entity has a binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by the developer or affiliate entities should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

The Developers

D.R. Horton-Texas, LTD

D.R. Horton-Texas, LTD, a Texas limited partnership ("D.R. Horton"), is developing the single-family residential subdivision of Silverado. As of January 23, 2020, D.R. Horton has developed approximately 179 acres (813 lots) as Silverado, Phases 1A & 1B, 1C, 2 and 3. See "DEVELOPMENT OF THE DISTRICT – Status of Development within the District". Additionally, D.R. Horton is currently developing 42 acres as Silverado, Phase 4 (186 lots). According to D.R. Horton, Silverado Phase 4 is anticipated to be completed by September 2020.

In addition, D.R. Horton owns approximately 355 undeveloped but developable acres within the District and has entered into a contract with CADG Regatta III, LLC, for the purchase of an additional 441 undeveloped but developable acres within the District. See "– Principal Landowners" below. The District makes no representation as to the likelihood that D.R. Horton will purchase such lands or carry out the development thereof.

D.R. Horton is a subsidiary of and controlled by D.R. Horton, Inc. D.R. Horton, Inc. is a publicly traded corporation whose stock is listed on the New York Stock Exchange. Audited financial statements for D.R. Horton, Inc. can be found online at <https://investor.drhorton.com>. D.R. Horton, Inc. 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 D.R. Horton, Inc. 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.

Certain financial information concerning D.R. Horton is included as part of the consolidated financial statements of D.R. Horton, Inc. However, D.R. Horton, Inc. is not legally obligated to provide funds for the development of the District, to provide funds to pay taxes on property in the District owned by D.R. Horton, or to pay any other obligations of D.R. Horton. Further, neither D.R. Horton nor D.R. Horton, Inc. is responsible for, is liable for or has made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of such financial statements and description of financial arrangements by reference herein should not be construed as an implication to that effect. Neither D.R. Horton nor D.R. Horton, Inc. has any legal commitment to the District or owners of the Bonds to continue development of the land within the District and D.R. Horton may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the financial condition of D.R. Horton and D.R. Horton, Inc. is subject to change at any time.

Aspen 2931, LLC

Aspen 2931, LLC, a Texas limited liability company ("Aspen"), is developing the single-family residential subdivision known as Aspen Meadows. Aspen is currently developing approximately 42 acres (168 lots) as Aspen Meadows, Phase 1. Additionally, Aspen owns an additional 27 acres of undeveloped but developable land within the District. According to Aspen, Aspen Meadows, Phase 1 is anticipated to be completed by March 2020.

D.R. Horton and Aspen are referred to herein as the "Developers".

Principal Landowners

CADG Regatta III, LLC

Currently, CADG Regatta III, LLC, a Texas limited liability company, is the owner of approximately 441 undeveloped but developable acres within the District. However, according to D.R. Horton, D.R. Horton has entered into a contract with CADG Regatta III, LLC for the purchase of all 441 developable acres. The District makes no representation of any future ownership, use, or development of such property.

Aubrey Aggregates, LLC

Aubrey Aggregates, LLC, a Texas limited liability company, is the present owner of approximately 124 acres of undeveloped but developable land within the District; however, the District makes no representation of any future use or development of such property.

THE ROAD SYSTEM

Roads within the District are constructed with reinforced concrete pavement with curbs on lime stabilized subgrade. Silverado Parkway, Quicksilver Boulevard, Frontier Parkway and McNatt Road are the principal arterials entering the project off Farm-to-Market 2931 and Farm-to-Market 377. McNatt Road will be a 6-lane divided roadway. Silverado Parkway and Frontier Parkway will be 4-lane divided roadways and Quicksilver Boulevard will be a 4-lane divided roadway for approximately 255 feet, then turning into subdivision roadway. Remaining streets provide local interior service within the project and are typically 31-feet wide (between curbs). The Road System includes streetlights. Franchise utilities (power, phone and cable) and public utilities such as water, wastewater and storm drainage are typically located within street right of ways.

THE UTILITY SYSTEM

Regulation

According to the Engineer, the Utility System has 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, Denton County, Texas, the City, and Mustang Special Utility District ("Mustang"). Mustang is the provider of retail water and wastewater to users within the District. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies and inspected by the TCEQ.

Description of the Utility System

Water Supply

The District lies within the service area of certificate of convenience and necessity number 11856 held by Mustang.

On October 12, 2016, the District entered into a Non-Standard Service Agreement with Mustang to provide water capacity to service 3,100 equivalent single-family connections (“esfcs”) within the District. On November 12, 2019, the District entered into a Non-Standard Service Agreement with Mustang to provide water capacity for an additional 312 esfcs for the 116.932 acres of land that was annexed into the District on January 17, 2019 (collectively, the “Agreements”). Under the terms of the Agreements, the District will construct the internal water supply facilities necessary to service customers within the District’s boundaries. Upon completion of such system, the system will be conveyed to Mustang. In consideration of the District’s construction and conveying such systems, Mustang shall assume all operation and maintenance responsibilities for the water system.

Mustang has entered into an agreement with the Upper Trinity Regional Water District (the “UTRWD”) pursuant to which Mustang receives wholesale treated surface water from the UTRWD. Such water is delivered to the District at a point of delivery as described in the Agreements. Mustang owns sufficient water capacity through its agreement with the UTRWD to provide for the esfcs proposed within the District. As previously mentioned, the current agreement with UTRWD can be amended to accommodate the rest of the development.

Wastewater Treatment

The area within the District lies wholly within the sewer certificate of convenience and necessity number 20930 held by Mustang.

Under the terms of the Agreement, the District will construct, or have constructed, a wastewater collection system. Upon completion of such system, the system will be conveyed to Mustang. In consideration of the District’s construction and conveying such system, Mustang shall assume all operation and maintenance responsibilities for the wastewater system.

Under the terms of its agreement with UTRWD, Mustang is named a participant in the Riverbend Wastewater Treatment Plant, which is operated and maintained by the UTRWD. As referenced above, Mustang owns sufficient wastewater treatment capacity through its agreement with the UTRWD to provide 3,100 esfcs, which is sufficient to serve the 421 esfcs within the District.

Drainage

The natural drainage for the District is from the northeast toward the southwest. The flow follows existing drainage swales and flows into Lake Lewisville by way of Running Branch Creek that runs south through the District.

The storm drainage system that serves the District consists of curb and gutter streets and underground storm sewers inlets along the curb and gutter streets and detention structures, and then through natural tributaries to Lake Lewisville.

100-Year Flood Plain

According to U.S.G.S. topographic maps and Flood Insurance Rate Maps (FIRM) maps, the District is a relatively rolling terrain with elevations ranging from 573 to 615 feet above mean sea level. The land within the District slopes generally from 0% to 55%.

Approximately 113 acres of the District lie within the FEMA 100-year flood plain. Such acreage will not be used for development.

DISTRICT DEBT

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements on the Outstanding Bonds and the principal and interest requirements on the Bonds.

Calendar Year	Outstanding Debt Service	The Bonds		Debt Service	Total Debt Service
		Principal	Interest		
2020	\$ 134,872	-	\$ 106,313	\$ 106,313	\$ 241,184
2021	454,744	-	255,150	255,150	709,894
2022	454,194	\$ 195,000	255,150	450,150	904,344
2023	458,494	200,000	244,425	444,425	902,919
2024	457,494	205,000	233,425	438,425	895,919
2025	461,344	210,000	222,150	432,150	893,494
2026	464,894	220,000	210,600	430,600	895,494
2027	468,144	225,000	198,500	423,500	891,644
2028	470,800	230,000	186,125	416,125	886,925
2029	472,531	240,000	173,475	413,475	886,006
2030	473,606	245,000	160,275	405,275	878,881
2031	474,331	250,000	146,800	396,800	871,131
2032	474,363	260,000	133,050	393,050	867,413
2033	478,675	265,000	125,250	390,250	868,925
2034	477,425	275,000	117,300	392,300	869,725
2035	475,800	285,000	109,050	394,050	869,850
2036	478,000	290,000	100,500	390,500	868,500
2037	479,600	300,000	91,800	391,800	871,400
2038	480,600	310,000	82,800	392,800	873,400
2039	481,000	320,000	73,500	393,500	874,500
2040	480,800	330,000	63,900	393,900	874,700
2041	480,000	340,000	54,000	394,000	874,000
2042	483,600	350,000	43,800	393,800	877,400
2043	481,400	360,000	33,300	393,300	874,700
2044	483,600	370,000	22,500	392,500	876,100
2045	-	380,000	11,400	391,400	391,400
Total	\$ 11,480,309	\$ 6,655,000	\$ 3,454,538	\$ 10,109,538	\$ 21,589,847

Average Annual Debt Service Requirement (2020–2045) \$830,379

Maximum Annual Debt Service Requirement (2022)..... \$904,344

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Bonded Indebtedness

2019 Taxable Assessed Valuation.....	\$ 60,227,633	(a)
Estimate of Value as of January 23, 2020	\$ 129,000,000	(b)
Direct Debt:		
Outstanding Bonds.....	\$ 7,285,000	
The Bonds	<u>\$ 6,655,000</u>	
Total.....	\$ 13,940,000	
Estimated Overlapping Debt	<u>\$ 4,576,486</u>	(c)
Total Direct and Estimated Overlapping Debt	\$ 18,516,486	(c)
Direct Debt Ratios:		
As a percentage of the 2019 Taxable Assessed Valuation.....	23.15	%
As a percentage of the Estimate of Value as of January 23, 2020	10.81	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of the 2019 Taxable Assessed Valuation.....	30.74	%
As a percentage of the Estimate of Value as of January 23, 2020	14.35	%
Utility System Debt Service Fund Balance (as of Delivery of the Bonds)	\$ 449,213	(d)
Road System Debt Service Fund Balance (as of January 14, 2020)	\$ 287,643	
General Operating Fund Balance (as of January 14, 2020)	\$ 437,601	
2019 Tax Rate per \$100 of Taxable Assessed Valuation		
Utility System Debt Service	\$0.00	(e)
Road System Debt Service	\$0.77	
Maintenance and Operation.....	<u>\$0.23</u>	
Total.....	\$1.00	

-
- (a) Represents the taxable assessed valuation of all taxable property in the District as of January 1, 2019, as provided by the Denton Central Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Denton Central Appraisal District for informational purposes only, this amount is an estimate of the taxable value of all taxable property located within the District as of January 23, 2020, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District from January 1, 2019, through January 23, 2020. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (d) Represents eighteen (18) months of capitalized interest to be deposited into the Utility System Debt Service Fund upon closing 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.
- (e) The District is authorized to levy separate debt service taxes for Utility System debt service and Road System debt service, both of which are unlimited as to rate or amount. The District anticipates that it will levy a tax for payment of debt service on bonds issued for Utility System purposes (including the Bonds) in 2020. See "THE BONDS – Authority for Issuance."

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Direct and Estimated Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in *Texas Municipal Reports*, published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Jurisdiction	Outstanding Debt December 31, 2019	Overlapping	
		Percent	Amount
Denton County	\$ 627,060,000	0.05%	\$ 344,279
Aubrey Independent School District	86,301,852	4.90%	<u>4,232,207</u>
Total Estimated Overlapping Debt			\$ 4,576,486
The District (a)			<u>\$ 13,940,000</u>
Total Direct & Estimated Overlapping Debt (a)			\$ 18,516,486

(a) Includes the Bonds.

Debt Ratios

Direct Debt Ratios (a):

As a percentage of the 2019 Taxable Assessed Valuation.....	23.15 %
As a percentage of the Estimate of Value as of January 23, 2020	10.81 %

Direct and Estimated Overlapping Debt Ratios (a):

As a percentage of the 2019 Taxable Assessed Valuation.....	30.74 %
As a percentage of the Estimate of Value as of January 23, 2020	14.35 %

(a) Includes the Bonds.

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TAXING PROCEDURES

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, the Outstanding Bonds, and any additional bonds payable from taxes that the District may hereafter issue for the purpose of acquiring or constructing the Utility System and to pay the expenses of assessing and collecting such taxes. In the Bond Order, the District agrees to levy such a tax from year to year as described more fully above under "THE BONDS – Source of Payment." The Board is also authorized to levy an annual ad valorem tax, without legal limit as to rate or amount, on all taxable property in the District in sufficient amount to pay the principal of and interest any bonds payable from taxes that the District may hereafter issue for the purpose of acquiring or constructing 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 for the payment of certain contractual obligations. See "TAX DATA – Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board. 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 one hundred percent (100%) is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the

appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. 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 transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

Freeport Exemption and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit Exemption" is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Denton County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Denton County and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (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 jurisdictions. At this time, Denton County has not designated any of the area within the District as a reinvestment zone.

Valuation of Property for Taxation

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

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

Reappraisal of Property after Disaster

The Property Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

Tax Payment Installments after Disaster

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the taxpayer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

District and Taxpayer Remedies

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance

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

Rollback of Operation and Maintenance Tax Rate

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 rate 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'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 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 years for residential and agricultural property and six months for commercial property and all other types of property after the purchaser's deed at the foreclosure sale is filed in the county records.

TAX DATA

General

All 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. See "TAXING PROCEDURES." The Board has in its Bond Order covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. See "THE BONDS" and "RISK FACTORS."

For the 2019 tax year, the District levied a total tax rate of \$1.00 per \$100 of taxable assessed valuation comprised of \$0.23 per \$100 of taxable assessed valuation for maintenance and operations and \$0.77 per \$100 of taxable assessed valuation for Road System debt service. The District did not levy a tax rate for Utility System debt service purposes in 2019, however; the District intends to levy a tax for payment of Utility System debt service, including the Bonds, for tax year 2020. The District is authorized to levy separate debt service taxes, both of which are unlimited as to rate or amount, for payment of debt service on bonds issued for the Road System and bonds issued for the Utility System.

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 taxable assessed valuation.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements if such maintenance tax is authorized by vote of the District's electors. The Board is authorized by the District's voters to levy such maintenance tax in an amount not to exceed \$1.00 per \$100 of assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which have been issued or may be issued in the future. See "Tax Rate Distribution" below.

Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than June 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Property Tax Code.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the debt service 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's tax base occurs beyond the taxable assessed valuation as of January 1, 2019 (\$60,227,633), or the estimate of value as of January 23, 2020 (\$129,000,000). The calculations assume collection of 95% of taxes levied, the Outstanding Bonds, the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirement (2020–2045)	\$830,379
Debt Service Tax Rate of \$1.46 on the 2019 Taxable Assessed Valuation produces	\$835,357
Debt Service Tax Rate of \$0.68 on the Estimate of Value as of January 23, 2020, produces.....	\$833,340
Maximum Annual Debt Service Requirement (2022).....	\$904,344
Debt Service Tax Rate of \$1.59 on the 2019 Taxable Assessed Valuation produces	\$909,738
Debt Service Tax Rate of \$0.74 on the Estimate of Value as of January 23, 2020, produces.....	\$906,870

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

Set forth below is an estimation of all 2019 taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

<u>Taxing Jurisdiction</u>	<u>2019 Tax Rate</u>
The District	\$1.000000
Denton County	0.225278
Aubrey Independent School District	<u>1.568350</u>
Total Tax Rate	\$2.793628

Historical Tax Collections

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate</u>	<u>Adjusted Levy</u>	<u>Collections Current Year</u>	<u>Current Year Ended 9/30</u>	<u>Collections 12/31/19</u>
2017	\$39,001,460	\$1.00	\$390,015	100.00%	2018	100.00%
2018	\$23,058,273	\$1.00	\$230,583	95.66%	2019	100.00%
2019	\$60,227,633	\$1.00	\$602,276	94.58% (a)	2020	94.58% (a)

(a) In process of collections as of February 28, 2020.

Tax Rate Distribution

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Utility System Debt Service (a)	\$0.0000	\$0.0000	\$0.0000
Road System Debt Service	\$0.7700	\$0.0000	\$0.0000
Maintenance and Operations	<u>\$0.2300</u>	<u>\$1.0000</u>	<u>\$1.0000</u>
	\$1.0000	\$1.0000	\$1.0000

(a) The District anticipates levying a tax rate for Utility System debt service in tax year 2020.

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Taxable Assessed Valuation Summary

The following represents the type of property comprising the 2015–2019 tax rolls as certified by the Appraisal District:

Type of Property	2019 Taxable Assessed Valuation	2018 Taxable Assessed Valuation (a)	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation
Land	\$ 62,995,257	\$ 41,527,773	\$ 46,490,131	\$ 21,977,955	\$ 20,304,962
Improvements	18,534,459	205,311	219,105	1,210,091	1,164,094
Personal Property	563,834	451,000	0	0	0
Exemptions	<u>(21,865,917)</u>	<u>(19,125,811)</u>	<u>(7,707,776)</u>	<u>(17,499,650)</u>	<u>(15,999,136)</u>
Total	\$ 60,227,633	\$ 23,058,273	\$ 39,001,460	\$ 5,688,396	\$ 5,469,920

(a) Land values decreased primarily due to the successful protest of taxable value within the District by D.R. Horton. Exemption values in 2018 increased relative to exemption values in 2017 due to an agricultural waiver granted on raw land in the District in 2018 that was mistakenly not filed in 2017. See "THE DEVELOPERS AND PRINCIPAL LANDOWNERS."

Principal Taxpayers

The following are the principal taxpayers in the District as shown on the Appraisal District's most recent supplement to the appraisal rolls for the 2019 tax year:

Taxpayer	Types of Property	Taxable Value 2019 Tax Roll	Percent of District Value
DR Horton TX LTD (a)	Land & Improvements	\$30,158,311	50.07%
CADG Regatta III LLC (a)	Land	2,148,858	3.57%
ZT Equipment, LLC	Land, Improvements & Personal	1,468,650	2.44%
Aubrey Aggregates LLC (a)	Land & Improvements	1,265,779	2.10%
Homeowner	Land	375,134	0.62%
Homeowner	Land	365,583	0.61%
Homeowner	Land	352,262	0.58%
Homeowner	Land	346,680	0.58%
Homeowner	Land	291,812	0.48%
Homeowner	Land	<u>290,869</u>	<u>0.48%</u>
Total		\$37,063,938	61.54%

(a) See "THE DEVELOPERS AND PRINCIPAL LANDOWNERS."

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LEGAL MATTERS

Legal Opinions

The District will furnish to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Coats Rose, P.C., Dallas, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "TAX MATTERS" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bond Counsel's opinion will also address the matters described below.

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

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

Legal Review

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "- Book-Entry-Only System" and "- Use and Distribution of Bond Proceeds"), "THE DISTRICT - Authority," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it 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 Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, executed by the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

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

In the opinion of Coats Rose, P.C., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

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

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

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

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the

representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

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.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, 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 individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC 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.

Tax Accounting Treatment of Original Issue Discount and Premium 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 accrued period or is in excess of one year (the “Original Issue Discount Bonds”). 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 constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. 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, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See “– Tax Exemption” herein for a discussion of certain collateral federal tax consequences.

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 amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price is determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH 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.

The initial public offering price to be paid for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

Not Qualified Tax-Exempt Obligations

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

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 (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

Annual Reports

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

The information to be updated with respect to the District includes all quantitative financial information and operating data relative to the District of the general type included in this Official Statement under the headings "DISTRICT DEBT – General" (except under the subheading "Direct and Estimated Overlapping Debt Statement"), "TAX DATA," and "APPENDIX A." The District will update and provide this information within six months after the end of each of fiscal year ending in or after 2021.

Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within 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 and if the audit report becomes available.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other 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 SEC Rule 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 other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person within the meaning of the Rule, 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 from EMMA

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to 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 specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement, or from any statement made pursuant to its agreement, although holders 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 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 SEC 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 entered into its first continuing disclosure agreement pursuant to the Rule in 2019. In connection with the District’s issuance of its BAN in 2019, the District failed to file a material event Notice of Incurrence of Financial Obligation in a timely manner to the MSRB via EMMA. Such notice has since been filed along with a notice of late filing. Otherwise, the District has materially complied with its prior continuing disclosure obligations.

OFFICIAL STATEMENT

General

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

The District’s audited financial statements for the year ended January 31, 2019, were prepared by McCall Gibson Swedlund Barfoot PLLC and have been attached hereto as “APPENDIX A.” McCall Gibson Swedlund

Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Official Statement.

Experts

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

The information contained in this Official Statement relating to engineering and to the description of the Utility System, and, in particular, that engineering information included in the sections entitled "THE BONDS – Use and Distribution of Bond Proceeds," "THE DISTRICT – Description," "DEVELOPMENT OF THE DISTRICT – Status of Development within the District," "THE ROAD SYSTEM," and "THE UTILITY SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by the Tax Assessor/Collector and the Appraisal District. Such information has been included herein in reliance upon the Tax Assessor/Collector's authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of appraisal.

Certification as to Official Statement

The District, acting by and through its Board in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, 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 of 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 in writing 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.

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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 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 The Lakes Fresh Water Supply District of Denton County as of the date shown on the cover page hereof.

/s/ Debbie Reuther
President, Board of Directors
The Lakes Fresh Water Supply District of Denton County

ATTEST:

/s/ Travis Friesenhahn
Secretary, Board of Directors
The Lakes Fresh Water Supply District of Denton County

APPENDIX A
Financial Statements of the District

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY**

DENTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JANUARY 31, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY**

DENTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JANUARY 31, 2019

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET	7
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION	8
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	9
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES	10
NOTES TO THE FINANCIAL STATEMENTS	11-20
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	22
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	24
GENERAL FUND EXPENDITURES	25
TAXES LEVIED AND RECEIVABLE	26-27
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND - TWO YEARS	28-29
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	30-31

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Lakes Fresh Water Supply District
of Denton County
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of The Lakes Fresh Water Supply District of Denton County (the "District"), as of and for the year ended January 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
The Lakes Fresh Water Supply District
of Denton County

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

May 22, 2019

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JANUARY 31, 2019**

Management's discussion and analysis of The Lakes Fresh Water Supply District of Denton County's (the "District") financial performance provides an overview of the District's financial activities for the year ended January 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 Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. 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 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 one governmental fund type. The General Fund accounts for property tax revenues and general and administrative expenditures.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JANUARY 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 Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance 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 statement and accompanying notes, this report also represents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$370,827 as of January 31, 2019. The following is a comparative analysis of government-wide changes in net position:

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JANUARY 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 527,292	\$ 404,014	\$ 123,278
Intangible Assets (Net of Accumulated Amortization)	4,781,115		4,781,115
Capital Assets (Net of Accumulated Depreciation)	9,656,472		9,656,472
Total Assets	\$ 14,964,879	\$ 404,014	\$ 14,560,865
Due to Developer	\$ 14,576,705	\$ 39,300	\$ (14,537,405)
Other Liabilities	17,347	3,123	(14,224)
Total Liabilities	\$ 14,594,052	\$ 42,423	\$ (14,551,629)
Net Position:			
Net Investment in Capital Assets	\$ (99,818)	\$	\$ (99,818)
Unrestricted	470,645	361,591	109,054
Total Net Position	\$ 370,827	\$ 361,591	\$ 9,236

The following table is a summary of the District's operations for the years ending January 31, 2019 and January 31, 2018:

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Tax Revenues, Including Penalties	\$ 231,271	\$ 405,403	\$ (174,132)
Other Revenues	3,102		3,102
Total Revenues	\$ 234,373	\$ 405,403	\$ (171,030)
Expenses for Services	225,137	36,159	(188,978)
Change in Net Position	\$ 9,236	\$ 369,244	\$ (360,008)
Net Position, Beginning of Year	361,591	(7,653)	369,244
Net Position, End of Year	\$ 370,827	\$ 361,591	\$ 9,236

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JANUARY 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The District's General Fund fund balance as of January 31, 2019, was \$349,642, a decrease of \$39,287 from the prior year primarily due to professional fees and administrative costs exceeding property tax collections.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget for the fiscal year ending January 31, 2019. Actual revenues were \$201,368 less than budgeted revenues due to the timing of tax collections. Actual expenditures were \$70,359 more than budgeted due to higher than anticipated professional fees.

CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital assets as of January 31, 2019 total \$9,656,472, net of accumulated depreciation, and include road and drainage facilities for Silverado, Phases 1A, 1B, 1C and Phase 2.

Additionally, the District has entered into an agreement with Mustang Special Utility District ("Mustang") whereby water and wastewater facilities constructed are conveyed to Mustang for operation and maintenance for the benefit of District residents. As of January 31, 2019 assets constructed and conveyed totaled \$4,781,115 (net of accumulated amortization).

LONG-TERM DEBT ACTIVITY

The District does not have any long-term bond debt as of January 31, 2019. The District has recorded an amount due to developers in the amount of \$14,576,705 related to operating advances and completed facilities. See also Note 6.

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 The Lakes Fresh Water Supply District of Denton County, c/o Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, TX 75254.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY**
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
JANUARY 31, 2019

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 366,989	\$	\$ 366,989
Property Taxes Receivable	160,303		160,303
Intangible Assets (Net of Accumulated Amortization)		4,781,115	4,781,115
Capital Assets (Net of Accumulated Depreciation)		<u>9,656,472</u>	<u>9,656,472</u>
TOTAL ASSETS	<u>\$ 527,292</u>	<u>\$ 14,437,587</u>	<u>\$ 14,964,879</u>
LIABILITIES			
Accounts Payable	\$ 17,347	\$	\$ 17,347
Due to Developer		<u>14,576,705</u>	<u>14,576,705</u>
TOTAL LIABILITIES	<u>\$ 17,347</u>	<u>\$ 14,576,705</u>	<u>\$ 14,594,052</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	<u>\$ 160,303</u>	<u>\$ (160,303)</u>	<u>\$ -0-</u>
FUND BALANCE			
Unassigned	<u>\$ 349,642</u>	<u>\$ (349,642)</u>	<u>\$</u>
TOTAL FUND BALANCE	<u>\$ 349,642</u>	<u>\$ (349,642)</u>	<u>\$ -0-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u><u>\$ 527,292</u></u>		
NET POSITION			
Net Investment in Capital Assets		\$ (99,818)	\$ (99,818)
Unrestricted		<u>470,645</u>	<u>470,645</u>
TOTAL NET POSITION		<u>\$ 370,827</u>	<u>\$ 370,827</u>

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

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JANUARY 31, 2019**

Total Fund Balance - Governmental Fund	\$ 349,642
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Water and wastewater facilities constructed by the Developers and conveyed to Mustang Special Utility District exchange for service provided to District residents are recorded as intangible assets in governmental activities.	4,781,115
--	-----------

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	9,656,472
--	-----------

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.	160,303
--	---------

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	<u>(14,576,705)</u>
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Total Net Position - Governmental Activities	<u>\$ 370,827</u>
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The accompanying notes to the financial
statements are an integral part of this report.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY**
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JANUARY 31, 2019**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property Tax Revenues, Including Penalties	\$ 82,930	\$ 148,341	\$ 231,271
Miscellaneous Revenues	<u>3,102</u>	<u></u>	<u>3,102</u>
TOTAL REVENUES	<u>\$ 86,032</u>	<u>\$ 148,341</u>	<u>\$ 234,373</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 106,500	\$	\$ 106,500
Contracted Services	3,364		3,364
Amortization		34,706	34,706
Depreciation		65,112	65,112
Other	<u>15,455</u>	<u></u>	<u>15,455</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 125,319</u>	<u>\$ 99,818</u>	<u>\$ 225,137</u>
NET CHANGE IN FUND BALANCE	\$ (39,287)	\$ 39,287	\$
CHANGE IN NET POSITION		9,236	9,236
FUND BALANCE/NET POSITION - FEBRUARY 1, 2018	<u>388,929</u>	<u>(27,338)</u>	<u>361,591</u>
FUND BALANCE/NET POSITION - JANUARY 31, 2019	<u>\$ 349,642</u>	<u>\$ 21,185</u>	<u>\$ 370,827</u>

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

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JANUARY 31, 2019**

Net Change in Fund Balance - Governmental Fund	\$	(39,287)
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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.		148,341
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Governmental funds do not account for amortization. However, in the Statement of Net Position, intangible assets are amortized and amortization expense is recorded in the Statement of Activities.		(34,706)
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(65,112)
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Change in Net Position - Governmental Activities	\$	<u>9,236</u>
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The accompanying notes to the financial
statements are an integral part of this report.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 1. CREATION OF DISTRICT

The Lakes Fresh Water Supply District of Denton County (the “District”) was created on June 18, 2005 by special act of the 79th Texas Legislature. The creation and operation of the District is pursuant to Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution and Chapter 8125, Texas Special District Local Laws Code. The District operates under Chapters 49, 53 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and, the construction, operation and maintenance of macadamized, graveled or paved roads and turnpikes and improvements in aid thereof. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities, independently or with one or more conservation and reclamation districts, subject to the approval of the Texas Commission on Environmental Quality (the “Commission”) and the voters of the District. Additionally, the District may, subject to certain limitations, utilize non-tax revenues to develop and finance parks and recreational facilities.

Other than with respect to the construction and financing of roads and improvements in aid thereof, the Commission exercises continuing Directory jurisdiction over the District. Construction of the District’s water and sanitary sewer system is subject to the regulatory jurisdiction of additional governmental agencies.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”). GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

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

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

Government-Wide Financial Statements

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

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

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

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

General Fund - To account for property tax revenues and general and administrative expenditures.

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.

Capital Assets and Intangible Assets

Capital assets include road and drainage infrastructure which are reported in the government-wide Statement of Net Position at historical cost or estimated historical cost if actual historical cost is not available. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized if they have an original cost greater than \$5,000 and a useful life over 2 years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation over 45 years.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Intangible Assets (Continued)

Intangible assets, consisting of rights to receive service from the City of Aubrey, are reported in the government-wide Statement of Net Position. Intangible assets are valued at the cost of water and wastewater facilities conveyed to the City of Georgetown and amortized over 45 years.

Budgeting

In compliance with governmental accounting principles, the District is required to annually adopt an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

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

Measurement Focus

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

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

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

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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. The District does not have any restricted fund balances.

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. 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.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$366,989 and the bank balance was \$366,989. The District was not exposed to custodial credit risk at year end.

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

	<u>Cash</u>
GENERAL FUND	<u>\$ 366,989</u>

Investments

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

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

As of January 31, 2019, the District did not have any investments.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 4. MAINTENANCE TAX

On September 10, 2005, the voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the year ended January 31, 2019, the District levied an ad valorem maintenance tax rate of \$1.00 per \$100 of assessed valuation, which resulted in a tax levy of \$230,583 on the adjusted taxable valuation of \$23,058,273 for the 2018 tax year.

The District's tax calendar is as follows:

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

NOTE 5. CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital asset activity for the year ended January 31, 2019 is as follows:

	February 1, 2018	Increases	Decreases	January 31, 2019
Capital Assets Subject to Depreciation				
Roads	\$	\$ 6,258,730	\$	\$ 6,258,730
Drainage		3,462,854		3,462,854
Total Capital Assets Subject to Depreciation	\$ - 0 -	\$ 9,721,584	\$ - 0 -	\$ 9,721,584
Accumulated Depreciation				
Roads	\$	\$ 38,329	\$	\$ 38,329
Drainage		26,783		26,783
Total Accumulated Depreciation	\$ - 0 -	\$ 65,112	\$ - 0 -	\$ 65,112
Total Capital Assets, Net of Accumulated Depreciation	\$ - 0 -	\$ 9,656,472	\$ - 0 -	\$ 9,656,472

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 5. CAPITAL ASSETS AND INTANGIBLE ASSETS (Continued)

Intangible asset activity for the year ended January 31, 2019 is as follows:

	February 1, 2018	Increases	Decreases	January 31, 2019
Intangible Assets Subject to Amortization				
Water/Wastewater System	\$ -0-	\$ 4,815,821	\$ -0-	\$ 4,815,821
Accumulated Amortization				
Water/Wastewater System	\$ -0-	\$ 34,706	\$ -0-	\$ 34,706
Total Intangible Assets, Net of Accumulated Amortization	<u>\$ -0-</u>	<u>\$ 4,781,115</u>	<u>\$ -0-</u>	<u>\$ 4,781,115</u>

Developers have financed the construction of water and wastewater facilities to serve Silverado, Phases 1A, 1B, 1C and Phase 2. These facilities have been conveyed to Mustang Special Utility District ("Mustang") in accordance with the service agreement (see Note 9). In exchange for conveyance of these assets, Mustang agrees to provide service to the District.

NOTE 6. UNREIMBURSED COSTS

The District has entered into financing agreements with the Developers which call for the Developers to fund operating advances as well as costs associated with the construction of roads, water, sewer, and drainage infrastructure until such time as the District can sell bonds to reimburse the Developers. The District has recorded a liability to the Developers for operating advances in the amount of \$39,300. As of January 31, 2019, \$14,537,405 in construction, engineering and other costs have been made on behalf of the District for completed projects for which reimbursement has not been made. In accordance with the financing and reimbursement agreement with the Developer, the District has an obligation to reimburse the Developer for these costs from future bond issues.

NOTE 7. RISK MANAGEMENT

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

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 8. BONDS VOTED

On November 6, 2018, District voters authorized the issuance of water, wastewater and drainage facility bonds of \$202,454,000, water, wastewater and drainage facility refunding bonds of \$303,681,000, road facility bonds of \$219,696,000 and road facility refunding bonds of \$329,544,000.

NOTE 9. AGREEMENT WITH MUSTANG SPECIAL UTILITY DISTRICT

Water Supply

The District lies within the service area of certificate of convenience and necessity number 11856 held by Mustang Special Utility District (“Mustang”). Mustang is the provider of retail water service to the users within the District.

On October 12, 2016, the District entered into a service agreement with Mustang (the “Agreement”) to provide capacity to service 3,100 equivalent single-family connections (“esfcs”) within the District. This agreement will be revised to accommodate future development as needed. Under the terms of the Agreement, the District will construct the internal water supply and wastewater facilities necessary to service customers within the District’s boundaries. Upon completion of such systems, the systems will be conveyed to Mustang. In consideration of the District’s construction and conveying such systems, Mustang shall assume all operation and maintenance responsibilities for the water and wastewater systems.

Mustang has entered into an agreement with the Upper Trinity Regional Water District (the “UTRWD”) pursuant to which Mustang receives wholesale treated surface water from the UTRWD. Such water is delivered to the District at a point of delivery as described in the Agreement Mustang owns sufficient water capacity through its agreement with UTRWD to provide 3,100 esfcs, as referenced above, which is sufficient to serve the initial development Phases within the District.

Wastewater Treatment

The area within the District lies wholly within the sewer certificate of convenience and necessity number 20930 held by Mustang. Mustang is the provider of retail wastewater service to the users within the District.

As noted above, under the terms of the Agreement, the District will construct, or have constructed, a water production or distribution system and a wastewater collection system. Upon completion of such systems, the systems will be conveyed to Mustang. In consideration of the District’s construction and conveying such systems, Mustang shall assume all operation and maintenance responsibilities for the water and wastewater systems.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 31, 2019**

NOTE 9. AGREEMENT WITH MUSTANG SPECIAL UTILITY DISTRICT
(Continued)

Wastewater Treatment (Continued)

Mustang, under the terms of its agreement with the UTRWD, is made a participant in the Riverbend Wastewater Treatment Plant, which is operated and maintained by the UTRWD. As referenced above, Mustang owns sufficient wastewater treatment capacity through its agreement with the UTRWD to provide 3,100 esfs.

NOTE 10. AGREEMENTS WITH THE CITY OF AUBREY, TEXAS

The District entered into a Police and Emergency Response Services Agreement with the City of Aubrey, Texas (the “City”), dated May 17, 2018. In accordance with this agreement, the City provides residents of the District law enforcement services that include police protection, crime prevention, and other emergency services of the same nature that it provides within the City. Each single family residential connection pays a flat fee of \$12.00 per month per residential tap for these services, subject to increases on July 1 of each subsequent year. Mustang is responsible for billing and collecting for these services. The term of the agreement is from July 1, 2018 through June 30, 2021 and will automatically renew for successive one-year periods unless terminated.

The District entered into a Solid Waste and Recyclable Material Collection Services Agreement with the City of Aubrey, Texas (the “City”), dated May 17, 2018. In accordance with this agreement, the City provides residents of the District solid waste and recyclable material collection services of the same nature that it provides within the City. Each residential unit pays the same amount as is paid by residents of the City for such services. Mustang is responsible for billing and collecting for these services. The term of the agreement is from July 1, 2018 through June 30, 2021 and will automatically renew for successive one-year periods unless terminated.

NOTE 11. SUBSEQUENT EVENT – BOND SALE

On March 13, 2019, subsequent to year end, the District issued its \$7,285,000 Series 2019 Unlimited Tax Road Bonds. Proceeds from the bonds were used to reimburse a Developer for construction and engineering costs for grading and paving of Silverado, Phases 1A, 1B and Phase C. Additional proceeds were used to fund capitalized interest and pay for issuance costs of the bonds.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

JANUARY 31, 2019

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JANUARY 31, 2019**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes, Including Penalties	\$ 285,000	\$ 82,930	\$ (202,070)
Miscellaneous Revenues	<u>2,400</u>	<u>3,102</u>	<u>702</u>
TOTAL REVENUES	<u>\$ 287,400</u>	<u>\$ 86,032</u>	<u>\$ (201,368)</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 38,000	\$ 106,500	\$ (68,500)
Contracted Services	6,000	3,364	2,636
Other	<u>10,960</u>	<u>15,455</u>	<u>(4,495)</u>
TOTAL EXPENDITURES	<u>\$ 54,960</u>	<u>\$ 125,319</u>	<u>\$ (70,359)</u>
NET CHANGE IN FUND BALANCE	\$ 232,440	\$ (39,287)	\$ (271,727)
FUND BALANCE - FEBRUARY 1, 2018	<u>388,929</u>	<u>388,929</u>	<u></u>
FUND BALANCE - JANUARY 31, 2019	<u>\$ 621,369</u>	<u>\$ 349,642</u>	<u>\$ (271,727)</u>

See accompanying independent auditor's report.

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**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY**

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

JANUARY 31, 2019

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
SERVICES AND RATES
FOR THE YEAR ENDED JANUARY 31, 2019**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE YEAR:

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

Mustang Special Utility District will provide water and wastewater service to District customers. See Note 9.

2. RETAIL SERVICE PROVIDERS (NOT APPLICABLE)

3. TOTAL WATER CONSUMPTION: (NOT APPLICABLE)

4. STANDBY FEES: (NOT APPLICABLE)

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located - Denton County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ in which District is located – City of Aubrey, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JANUARY 31, 2019**

PROFESSIONAL FEES:	
Auditing	\$ 6,250
Engineering	1,413
Legal	<u>98,837</u>
TOTAL PROFESSIONAL FEES	<u>\$ 106,500</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 351
Bookkeeping	<u>3,013</u>
TOTAL CONTRACTED SERVICES	<u>\$ 3,364</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 5,006
Election Costs	1,992
Insurance	3,991
Meetings and Other	<u>4,466</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 15,455</u>
TOTAL EXPENDITURES	<u><u>\$ 125,319</u></u>

See accompanying independent auditor's report.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JANUARY 31, 2019**

	<u>Maintenance Taxes</u>	
TAXES RECEIVABLE - FEBRUARY 1, 2018	\$ 11,962	
Adjustments to Beginning Balance	<u> </u>	\$ 11,962
Original 2018 Tax Levy	\$ 144,343	
Adjustment to 2018 Tax Levy	<u>86,240</u>	<u>230,583</u>
TOTAL TO BE ACCOUNTED FOR		\$ 242,545
TAX COLLECTIONS:		
Prior Years	\$ 11,962	
Current Year	<u>70,280</u>	<u>82,242</u>
TAXES RECEIVABLE - JANUARY 31, 2019		<u>\$ 160,303</u>
TAXES RECEIVABLE BY YEAR:		
2018		<u>\$ 160,303</u>

See accompanying independent auditor's report.

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**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JANUARY 31, 2019**

	<u>2018</u>	<u>2017</u>
PROPERTY VALUATIONS:		
Land	\$ 41,527,773	\$ 40,501,728
Improvements	205,311	219,105
Personal Property	451,000	
Exemptions	<u>(19,125,811)</u>	<u>(1,719,373)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 23,058,273</u>	<u>\$ 39,001,460</u>
TAX RATES PER \$100 VALUATION:		
Maintenance**	<u>\$ 1.00</u>	<u>\$ 1.00</u>
ADJUSTED TAX LEVY*	<u>\$ 230,583</u>	<u>\$ 390,014</u>
PERCENTAGE OF TAX COLLECTED TO TAXES LEVIED	<u>30.48 %</u>	<u>100.00 %</u>

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

** Maintenance Tax – Maximum tax rate of an unlimited amount per \$100 of assessed valuation approved by voters on September 10, 2005.

See accompanying independent auditor's report.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – TWO YEARS**

	Amounts	
	2019	2018
REVENUES		
Property Tax Revenues, Including Penalties	\$ 82,930	\$ 393,441
Miscellaneous Revenues	3,102	
TOTAL REVENUES	<u>\$ 86,032</u>	<u>\$ 393,441</u>
EXPENDITURES		
Administrative:		
Professional Fees	\$ 106,500	\$ 21,263
Contracted Services	3,364	3,166
Other	15,455	11,730
TOTAL EXPENDITURES	<u>\$ 125,319</u>	<u>\$ 36,159</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (39,287)</u>	<u>\$ 357,282</u>
OTHER FINANCING SOURCES (USES)		
Developer Advances	\$ -0-	\$ 31,000
NET CHANGE IN FUND BALANCE	<u>\$ (39,287)</u>	<u>\$ 388,282</u>
BEGINNING FUND BALANCE	<u>388,929</u>	<u>647</u>
ENDING FUND BALANCE	<u>\$ 349,642</u>	<u>\$ 388,929</u>

See accompanying independent auditor's report.

Percentage of Total Revenues	
2019	2018
96.4 %	100.0 %
<u>3.6</u>	<u> </u>
<u>100.0 %</u>	<u>100.0 %</u>
123.8 %	5.4 %
3.9	0.8
<u>18.0</u>	<u>3.0</u>
<u>145.7 %</u>	<u>9.2 %</u>
<u>(45.7) %</u>	<u>90.8 %</u>

See accompanying independent auditor's report.

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

District Telephone Number - (972) 982-8450

Directors:	Term of Office (Elected or Appointed)	Fees of Office for the year ended January 31, 2019	Expense Reimbursements for the year ended January 31, 2019	Title
Debbie Reuther	05/2018 05/2022 (Elected)	\$ 1,050	\$ 101	President
Paula Barnhouse	10/2016 05/2020 (Appointed)	\$ 1,050	\$ 52	Vice President
Travis Friesenhahn	10/2016 05/2020 (Appointed)	\$ 900	\$ 31	Secretary
Sukhui Gibb	10/2016 05/2020 (Appointed)	\$ 900	\$ -0-	Assistant Secretary
Blair Thomas	05/2018 05/2022 (Elected)	\$ 750	\$ 57	Assistant Secretary

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

See accompanying independent auditor's report.

**THE LAKES FRESH WATER SUPPLY DISTRICT
OF DENTON COUNTY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JANUARY 31, 2019**

Consultants:	<u>Date Hired</u>	<u>Fees / Compensation for the year ended January 31, 2019</u>	<u>Title</u>
Coats Rose, P.C.	10/12/16	\$ 98,837	General Counsel
McCall Gibson Swedlund Barfoot PLLC	03/22/18	\$ 6,250	Auditor
L&S District Services, LLC	11/17/16	\$ 3,013	Bookkeeper
Petitt Barraza, LLC	03/05/08	\$ 1,413	Engineer
Robert W. Baird & Co. Incorporated	08/17/17	\$ -0-	Financial Advisor
Cindy Schmidt	11/17/16	\$ -0-	Investment Officer

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

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