

OFFICIAL STATEMENT DATED AUGUST 24, 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" and "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

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

NEW ISSUE – Book Entry Only

S&P Global Ratings (BAM Insured)..... "AA"

\$2,420,000

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3 OF DENTON COUNTY

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

UNLIMITED TAX BONDS

SERIES 2020A

Dated: September 1, 2020

Due: September 1, as shown on inside cover

The \$2,420,000 Unlimited Tax Bonds, Series 2020A (the "Bonds"), are obligations of Oak Point Water Control and Improvement District No. 3 of Denton County (the "District") and are not obligations of the State of Texas; Denton County, Texas; the City of Oak Point, 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 Oak Point, 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/registrars, initially, BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"). Interest accrues from September 1, 2020, and is payable March 1, 2021, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by 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 second series of unlimited tax bonds to be issued by the District. 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 September 22, 2020.

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

\$2,420,000 Unlimited Tax Bonds, Series 2020A

\$310,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 67176N (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 67176N (b)
2022	\$ 75,000	4.500%	0.600%	BA3	2024	\$ 80,000	4.500%	0.800%	BC9
2023	75,000	4.500%	0.700%	BB1	2025	80,000	4.500%	0.900%	BD7

\$2,110,000 Term Bonds

\$340,000 Term Bond due September 1, 2029 (c)(d) Interest Rate: 4.000% (Price: \$114.428) (a) CUSIP No. 67176N BH8 (b)

\$185,000 Term Bond due September 1, 2031 (c)(d) Interest Rate: 2.000% (Price: \$100.000) (a) CUSIP No. 67176N BK1 (b)

\$195,000 Term Bond due September 1, 2033 (c)(d) Interest Rate: 2.000% (Price: \$99.095) (a) CUSIP No. 67176N BM7 (b)

\$205,000 Term Bond due September 1, 2035 (c)(d) Interest Rate: 2.000% (Price: \$98.091) (a) CUSIP No. 67176N BP0 (b)

\$215,000 Term Bond due September 1, 2037 (c)(d) Interest Rate: 2.000% (Price: \$97.183) (a) CUSIP No. 67176N BR6 (b)

\$225,000 Term Bond due September 1, 2039 (c)(d) Interest Rate: 2.000% (Price: \$96.161) (a) CUSIP No. 67176N BT2 (b)

\$235,000 Term Bond due September 1, 2041 (c)(d) Interest Rate: 2.250% (Price: \$98.352) (a) CUSIP No. 67176N BV7 (b)

\$250,000 Term Bond due September 1, 2043 (c)(d) Interest Rate: 2.250% (Price: \$97.364) (a) CUSIP No. 67176N BX3 (b)

\$260,000 Term Bond due September 1, 2045 (c)(d) Interest Rate: 2.250% (Price: \$96.283) (a) CUSIP No. 67176N BZ8 (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 September 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, 2029, 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 of the Bonds – *Optional Redemption*."
- (d) Subject to mandatory redemption as provided under "THE BONDS – Redemption of the Bonds – *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.

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.”

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.”

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.

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INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Oak Point Water Control and Improvement District No. 3 of Denton County (the "District") of its \$2,420,000 Unlimited Tax Bonds, Series 2020A (the "Bonds").

The Bonds are issued pursuant to (i) 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"); (ii) Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, particularly Chapters 49, and 51, Texas Water Code, as amended; (iii) an election held within the District on May 13, 2006; 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 97.037197% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.541244%, 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 (the "SEC") under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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 appendix to this Official Statement.

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2020, and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$488.7 million, \$143.6 million and \$345.1 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

RATINGS

The Bonds are expected to receive an insured rating of "AA" from S&P solely in reliance upon the issuance of the municipal bond insurance policy by BAM at the time of delivery of the Bonds. An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. 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 such rating company, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect of the market price of the Bonds.

The District is not aware of any ratings assigned the Bonds other than the 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..... Oak Point Water Control and Improvement District No. 3 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 \$2,420,000 Unlimited Tax Bonds, Series 2020A (the "Bonds"), are dated September 1, 2020. Interest accrues from September 1, 2020, at the rates set forth on the inside cover page hereof, and is payable March 1, 2021, and each September 1 and March 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 of the Bonds The Bonds maturing on or after September 1, 2029, 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 of the Bonds - *Optional Redemption*."

The Bonds maturing on September 1 in the years 2029, 2031, 2033, 2035, 2037, 2039, 2041, 2043, and 2045 are term bonds that are also subject to mandatory redemption provisions set out herein "THE BONDS - Redemption of the Bonds - *Mandatory Redemption*."

- 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 BOKF, NA, Dallas, 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 Oak Point, Texas; or any entity other than the District. See "THE BONDS - Source of Payment."

- Outstanding Bonds The District has previously issued its \$4,950,000 Unlimited Tax Bonds, Series 2020. As of the date hereof, \$4,950,000 principal amount of such bonds remains outstanding (the "Outstanding Bonds").

Payment Record.....	The Bonds represent the second series of unlimited tax bonds to be issued by the District.
Authority for Issuance.....	At an election held on May 13, 2006, voters of the District authorized the District's issuance of an aggregate \$16,180,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the water, wastewater, and drainage system (the "System") serving the District. The Bonds represent the District's second issuance of bonds from said voted authorization. Following issuance of the Bonds, \$8,810,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System will remain authorized but unissued. The Bonds are issued pursuant to (i) 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"); (ii) Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, particularly Chapters 49 and 51, Texas Water Code, as amended; (iii); an election held within the District on May 13, 2006; and (iv) an order issued by the Texas Commission on Environmental Quality (the "TCEQ"). See "THE BONDS – Authority for Issuance."
Use of Proceeds	Proceeds from the sale of the Bonds will be used to reimburse the Developer (herein defined) for costs associated with certain water, wastewater, and drainage facilities serving the District as set out herein under "THE BONDS – Use and Distribution of Bond Proceeds." Proceeds of the Bonds will also be used to pay six (6) months of capitalized interest on the Bonds and costs of issuance of the Bonds. See "THE BONDS – Use and Distribution of Bond Proceeds" for further information.
Qualified Tax-Exempt Obligations.....	The Bonds have been designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations."
Municipal Bond Insurance	Build America Mutual Assurance Company ("BAM"). 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.
Engineer	LJA Engineering, Inc., Dallas, Texas.

INFECTIOUS DISEASE OUTBREAK (COVID-19)

Infectious Disease Outbreak – COVID-19 ...	The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. As described herein under "RISK FACTORS – Infectious Disease Outbreak – Covid-19", federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.
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Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Dallas area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from two ad valorem taxes.

While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

THE DISTRICT

Description.....The District is located approximately 40 miles northwest of the central business district of the City of Dallas, Texas, and approximately 2 miles southeast of the City of Oak Point, Texas. The District lies entirely within the extraterritorial jurisdiction the City of Oak Point, Texas. The District was created by order of the TCEQ on September 7, 2005, pursuant to Article XVI, Section 59 of the Texas Constitution, and operates pursuant to the Texas Water Code, Chapters 49 and 51, as amended. The District consists of approximately 102 total acres. See "THE DISTRICT."

Development within the District.....Lands within the District have been developed as the single-family residential subdivision known as Shahan Lakeview. To date, approximately 101.44 acres within the District have been developed as the residential subdivisions of Shahan Lakeview, Phase 1a (110 single-family lots), Shahan Lakeview, Phase 1b (101 single-family lots), and Shahan Lakeview, Phase 2 (191 single-family lots). As of July 1, 2020, the District included 285 completed homes (approximately 260 occupied, 23 unoccupied, and 2 model homes); 49 homes under construction; and 68 vacant developed lots. The remaining land within the District includes approximately 1 undevelopable acre consisting of floodplain, parks, and open spaces. See "THE DEVELOPER," "DEVELOPMENT OF THE DISTRICT," and "THE DISTRICT."

Developer.....D.R. Horton-Texas, LTD., a Texas limited partnership ("D.R. Horton" or the "Developer"), is the developer of land within the District. D.R. Horton is developing the single-family residential subdivision of Shahan Lakeview. See "THE DEVELOPER" and "DEVELOPMENT OF THE DISTRICT."

Homebuilder within the DistrictD.R. Horton is the sole homebuilder that is actively constructing new homes in the District. New homes being constructed in the District

range in price from approximately \$228,000 to \$326,000 and in size from approximately 1,600 to 3,000 square feet. See "DEVELOPMENT OF THE DISTRICT - Homebuilder 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.....	\$ 39,466,850	(a)
2020 Certified Estimated Value	\$ 67,160,066	(b)
Estimate of Value as of June 1, 2020	\$ 82,800,000	(c)
Direct Debt:		
Outstanding Bonds.....	\$ 4,950,000	
The Bonds	<u>\$ 2,420,000</u>	
Total.....	\$ 7,370,000	
Estimated Overlapping Debt	<u>\$ 2,692,422</u>	(d)
Total Direct and Estimated Overlapping Debt	\$ 10,062,422	(d)
Direct Debt Ratios:		
As a percentage of the 2019 Taxable Assessed Valuation.....	18.67	%
As a percentage of the 2020 Certified Estimated Value	10.97	%
As a percentage of the Estimate of Value as of June 1, 2020	8.90	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of the 2019 Taxable Assessed Valuation.....	25.50	%
As a percentage of the 2020 Certified Estimated Value	14.98	%
As a percentage of the Estimate of Value as of June 1, 2020	12.15	%
Debt Service Fund Balance (as of July 20, 2020).....	\$ 200,246	(e)
General Operating Fund Balance (as of July 20, 2020).....	\$ 244,991	(f)
Capital Projects Fund Balance (as of July 20, 2020)	\$ 14,229	
2019 Tax Rate per \$100 of Taxable Assessed Valuation		
Debt Service	\$0.00	(g)
Maintenance and Operation.....	<u>\$0.63</u>	
Total.....	\$0.63	(h)
Average Annual Debt Service Requirement (2020–2045)	\$ 399,456	(i)
Maximum Annual Debt Service Requirement (2042).....	\$ 434,625	(i)
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation		
Required to Pay Average Annual Debt Service Requirement (2020–2045)		
Based on the 2019 Taxable Assessed Valuation at 95% Tax Collections	\$1.07	
Based on the 2020 Certified Estimated Value at 95% Tax Collections.....	\$0.63	
Based on the Estimate of Value as of June 1, 2020, at 95% Tax Collections	\$0.51	
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation		
Required to Pay Maximum Annual Debt Service Requirement (2042)		
Based on the 2019 Taxable Assessed Valuation at 95% Tax Collections	\$1.16	
Based on the 2020 Certified Estimated Value at 95% Tax Collections.....	\$0.69	
Based on the Estimate of Value as of June 1, 2020, at 95% Tax Collections	\$0.56	

(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 (the "Appraisal District"). See "TAX DATA" and "TAXING PROCEDURES."

(b) Provided by the Appraisal District, such value represents the Appraisal District's estimation of certified valuation of all taxable property located within the District as of January 1, 2020. Such value indicates \$1,445,087 amount of assessed valuation under review by the Denton County Appraisal Review Board (the "Appraisal Review Board"); which represents 80% of such value under review. No taxes will be levied on this certified estimate of taxable value, which is subject to review and downward adjustment prior to certification. After the value is certified by the Appraisal Review Board, taxes will be levied on the certified value. It is anticipated that the Appraisal District will provide the certified taxable assessed valuation as of January 1, 2020 by the end of September 2020. See "TAX DATA" and "TAXING PROCEDURES."

- (c) Provided by the 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 June 1, 2020, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District from January 1, 2020, through June 1, 2020. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (d) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (e) Includes six (6) months of capitalized interest to be deposited into the 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 debt service fund.
- (f) See "RISK FACTORS – Operating Funds."
- (g) The District anticipates that it will levy a tax for payment of debt service in 2020. See "THE BONDS – Authority for Issuance."
- (h) For the 2020 tax year, the District expects to levy a total tax rate of \$0.63 per \$100 of assessed valuation composed of a \$0.125 tax rate for maintenance and operation purposes and \$0.505 for debt service purposes.
- (i) Requirement of debt service on the Bonds and the Outstanding Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule."

\$2,420,000

**OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3 OF DENTON COUNTY
UNLIMITED TAX BONDS
SERIES 2020A**

INTRODUCTION

This Official Statement of Oak Point Water Control and Improvement District No. 3 of Denton County (the "District") is provided to furnish information with respect to the issuance by the District of its \$2,420,000 Unlimited Tax Bonds, Series 2020A (the "Bonds").

The Bonds are issued pursuant to (i) 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"); (ii) Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, particularly Chapters 49, and 51, Texas Water Code, as amended; (iii); an election held within the District on May 13, 2006; and (iv) an order issued by the Texas Commission on Environmental Quality (the "TCEQ").

This Official Statement includes descriptions of the Bonds, the Developer (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 Oak Point, 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."

Infectious Disease Outbreak – COVID-19

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and the State of Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in the State of Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action

in coping with this disaster and issuing executive orders that have the force and effect of law. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within the State of Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within the State of Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. The State of Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Dallas, Texas metropolitan area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and the potential impact of COVID-19 on the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

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 Landowner: There is no commitment by, or legal requirement of, the Developer (herein defined), 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 DEVELOPER," 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 15.99% of the District's total taxable assessed valuation. D.R. Horton-Texas, LTD., the District's top taxpayer for the 2019 tax year and the Developer as defined hereinafter, owns taxable property representing approximately 8.97% of the District's total taxable assessed valuation. See "THE DEVELOPER." In the event that the Developer, 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 \$39,466,850, the certified estimated value as of January 1, 2020, is \$67,160,066, and the estimate of value as of June 1, 2020, is \$82,800,000. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement on the Bonds and the Outstanding Bonds is \$434,625 (2042), and the average annual debt service requirement on the Bonds and the Outstanding Bonds is \$399,456 (2020–2045). Assuming no decrease to the District's taxable assessed valuation as of January 1, 2019, tax rates of \$1.16 and \$1.07 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 to the District's certified estimated value as of January 1, 2020, tax rates of \$0.69 and \$0.63 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 June 1, 2020, tax rates of \$0.56 and \$0.51 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 \$0.63 per \$100 taxable assessed valuation composed entirely of a tax for maintenance and operations. For the 2020 tax year, the District expects to levy a total tax rate of \$0.63 per \$100 of assessed valuation composed of a \$0.125 tax rate for maintenance and operation purposes and \$0.505 for debt service purposes. Upon closing and delivery of the Bonds, six (6) months of capitalized interest will be deposited into the District's debt service fund. 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 addition to ad valorem taxes levied by the District and the other taxing entities that overlap the District, the City levies assessments on certain properties in the District, which aggregate per parcel assessments of approximately \$10,900 with annual payments ranging from approximately \$875 to \$1,030. The majority of such assessments will be used to reimburse the Developer for the costs of public improvement projects constructed for the benefit of the certain properties within the District. The City has also levied an aggregate per parcel assessment for maintenance and police, fire and first response EMS services ("DPS Services") with annual payments of approximately \$740, which will be used to offset costs incurred by the City for certain maintenance expenses related to the public improvements and DPS Services. See "PUBLIC IMPROVEMENT DISTRICT" and "TAX DATA – Estimated Overlapping Taxes."

Increases in the District's tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of property within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District.

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.

Operating Funds

The District's only source of operating revenue is maintenance tax revenue. The District does not collect water and wastewater revenues from its residents. The District levied a 2019 maintenance tax of \$0.63 per \$100 of taxable assessed valuation. The District's general fund balance as of July 20, 2020, was \$244,991. The revenue produced from a \$0.63 maintenance tax in 2019 or a reduced maintenance tax rate in subsequent years may not be sufficient to offset the operating expenses of the District. For the 2020 tax year, the District expects to levy a total tax rate of \$0.63 per \$100 of assessed valuation composed of a \$0.125 tax rate for maintenance and operation purposes and \$0.505 for debt service purposes. Continued maintenance of a positive general fund balance is expected to depend upon (1) continued collection of the levied maintenance taxes, (2) continued development and increased amounts of maintenance tax revenue, or (3) cash subsidies from the Developer. If funds from these sources are not forthcoming, the District would have to increase its maintenance tax rate.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by 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 procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property within two (2) years of foreclosure for residential homestead and agricultural use property and within six (6) months of foreclosure for other 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. Moreover, the value of property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayer's right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. See "TAXING PROCEDURES."

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners (hereinafter defined) have a right to seek a writ of mandamus requiring the District to levy sufficient taxes each year to make such payments. Except for mandamus, the Bond 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 default, and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners may be limited further by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the District to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge.

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 May 13, 2006, voters of the District authorized the District's issuance of a total of \$16,180,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring a water, wastewater, and drainage system serving the District (the "System") as well as a total of \$16,180,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District for the System. The Bonds constitute the District's second issuance of unlimited tax bonds.

After issuance of the Bonds, the District has the right to issue remaining authorized but unissued unlimited tax bonds as follows: \$8,810,000 principal amount for acquiring or constructing the System and \$16,180,000 principal amount for the refunding of bonds issued for the System. 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 remaining \$8,810,000 principal amount of unlimited tax bonds for the System is subject to prior approval by the TCEQ.

Following issuance of the Bonds, the District will owe the Developer approximately \$1,875,000 for the expenditures that the Developer has incurred to date for construction of the 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.

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure of the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "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 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 the applicable bond insurance policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District 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 Policy (the "Bond Insurer") at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

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

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

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

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 September 1, 2020, with interest payable on March 1, 2021, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from September 1, 2020, and thereafter from the most recent Interest Payment Date

to which interest has been paid. The Bonds mature on September 1 of the years and in the amounts shown under “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” on the inside cover page hereof.

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

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

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

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, 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 rating of AA+ from S&P Global Ratings. 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 confirms the District's fund for payment of debt service on the Bonds and any additional unlimited tax bonds issued by the District (the "Debt Service Fund"). Accrued interest on the Bonds as well as six (6) months of capitalized interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the Debt Service Fund. The Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds and any additional unlimited tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds and any of the District's other duly authorized bonds payable in whole or in part from taxes. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Redemption of the Bonds

Optional Redemption

Bonds maturing on September 1, 2029, 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 maturing on September 1 in the years 2029, 2031, 2033, 2035, 2037, 2039, 2041, 2043, and 2045 are 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"), and in the principal amount set forth in the following schedule:

\$340,000 Term Bonds Maturing on September 1, 2029

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2026	\$80,000
September 1, 2027	\$85,000
September 1, 2028	\$85,000
September 1, 2029 (Maturity)	\$90,000

\$185,000 Term Bonds Maturing on September 1, 2031

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2030	\$90,000
September 1, 2031 (Maturity)	\$95,000

\$195,000 Term Bonds Maturing on September 1, 2033

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2032	\$95,000
September 1, 2033 (Maturity)	\$100,000

\$205,000 Term Bonds Maturing on September 1, 2035

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2034	\$100,000
September 1, 2035 (Maturity)	\$105,000

\$215,000 Term Bonds Maturing on September 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2036	\$105,000
September 1, 2037 (Maturity)	\$110,000

\$225,000 Term Bonds Maturing on September 1, 2039

Mandatory Redemption Date	Principal Amount
September 1, 2038	\$110,000
September 1, 2039 (Maturity)	\$115,000

\$235,000 Term Bonds Maturing on September 1, 2041

Mandatory Redemption Date	Principal Amount
September 1, 2040	\$115,000
September 1, 2041 (Maturity)	\$120,000

\$250,000 Term Bonds Maturing on September 1, 2043

Mandatory Redemption Date	Principal Amount
September 1, 2042	\$125,000
September 1, 2043 (Maturity)	\$125,000

\$260,000 Term Bonds Maturing on September 1, 2045

Mandatory Redemption Date	Principal Amount
September 1, 2044	\$130,000
September 1, 2045 (Maturity)	\$130,000

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

Under existing Texas law, 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, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should the annexation occur. The Bond Order provides for the termination of the pledge of taxes to the Bonds upon annexation and dissolution by the City.

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.

Outstanding Bonds

The District has previously issued its \$4,950,000 Unlimited Tax Bonds, Series 2020. As of the date hereof, \$4,950,000 principal amount of such bonds remains outstanding (the "Outstanding Bonds").

Payment Record

The District has never defaulted on the timely payment of principal or interest on its outstanding indebtedness.

Authority for Issuance

The Bonds are the second series of bonds to be issued by the District out of an aggregate \$16,180,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring or constructing the System. Following issuance of the Bonds, \$8,810,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System will remain authorized but unissued. The District's voters have also authorized the District's issuance of \$16,180,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the System.

The Bonds are issued pursuant to (i) the Bond Order; (ii) Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, particularly Chapters 49 and 51, Texas Water Code, as amended; (iii) an election held within the District on May 13, 2006; and (iv) an order issued by the TCEQ.

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 (the "Appraisal District"). Tax proceeds, after deduction for collection costs, will be placed in the 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, and fees of the Paying Agent/Registrar.

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 \$16,180,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System and \$16,180,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the System, and could authorize additional amounts.

The Bonds are the second series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the System. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$8,810,000 for the purpose of acquiring or constructing the System and \$16,180,000 for the purpose of refunding bonds issued by the District for the System.

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 System, approved by the TCEQ.

Following issuance of the Bonds, the District will owe the Developer approximately \$1,875,000 for expenditures to construct the 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 has submitted a fire protection plan to the TCEQ, and, as of the date of this Official Statement, such plan remains under review of the TCEQ. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt-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 the sale of the Bonds will be used to reimburse the Developer for the construction costs set out below and pay six (6) months of capitalized interest on the Bonds. Proceeds of the Bonds will also be used to pay non-construction costs as shown below.

Construction Costs

A. Developer Contribution Items	
1. Shahan Lakeview Phase 1A – W, WW, D	\$ 123,383
2. Shahan Lakeview Phase 1B – W, WW, D	703,241
3. Shahan Lakeview Phase 2- W, WW, D	207,500
4. Engineering and Testing (18% of Items No. 1 & 2)	430,134
5. SWPPP Expenses	<u>341,810</u>
Total Developer Contribution Items	\$ 1,806,068
B. District Items	
1. None	\$ -
Total District Items	\$ -
TOTAL CONSTRUCTION COSTS	\$ 1,806,068

Non-Construction Costs

A. Legal Fees	\$ 58,400
B. Fiscal Agent Fees	48,400
C. Interest Costs	
1. Developer Interest	273,373
2. Capitalized Interest (6 Months)	32,406
D. Underwriter's Discount	71,700
E. Bond Issuance Expense	31,086
F. Bond Engineering Report	42,000
G. TCEQ Fee	6,050
H. Attorney General Fee	2,420
I. Operational Expenses	19,103
J. Contingency (a)	<u>28,994</u>
TOTAL NON-CONSTRUCTION COSTS	\$ 613,932
TOTAL BOND ISSUE REQUIREMENT	\$ 2,420,000

(a) Represents the difference between the estimated and actual amounts of capitalized interest and underwriter's discount.

THE DISTRICT

Authority

The District was created by order of the TCEQ on September 7, 2005, pursuant to Article XVI, Section 59 of the Texas Constitution and the Texas Water Code, Chapters 49 and 51, as amended. The District was confirmed by an election held within the District on May 13, 2006.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of stormwater. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. Currently the District contracts for solid waste collection service. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department.

The District is subject to the continuing supervision of the TCEQ and is located entirely within Denton County and the extraterritorial jurisdiction ("ETJ") of the City.

Description

The District, a political subdivision of the State of Texas, is entirely located in Denton County, approximately 40 miles north of Downtown Dallas, Texas. The District is approximately four miles south of U.S. Highway 380. The District is bound on the south by Shahan Prairie Road and to the west by Oak Point Water Control and Improvement District No. 4. U.S. Highway 380 provides access to the City of Denton and the City of Dallas. The Dallas central business district is approximately 40 miles to the southeast of the District.

The District contains approximately 102.438 acres of land.

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. All of the Directors own property in the District. The directors 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>
Jerry Wight	President	2024
Sean Garrett	Vice President	2022
Alison Murray	Secretary	2022
Gina Lacy	Assistant Secretary	2024
Heather Barbee	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 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 Dye & Toverly, LLC for bookkeeping services.

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

Auditor: The District's financial statements for the fiscal year ended January 31, 2020, were audited by Mark C. Eyring, CPA, 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 LJA Engineering, Inc. (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 engaged 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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DEVELOPMENT OF THE DISTRICT

Lands within the District have been developed as the single-family residential subdivision known as Shahan Lakeview. Approximately 101.44 acres within the District have been developed as the residential subdivisions of Shahan Lakeview, Phase 1a (110 single-family lots), Shahan Lakeview, Phase 1b (101 single-family lots), and Shahan Lakeview, Phase 2 (191 single-family lots). As of July 1, 2020, the District included 285 completed homes (approximately 260 occupied, 23 unoccupied, and 2 model homes); 49 homes under construction; and 68 vacant developed lots. The remaining land within the District includes approximately 1 undevelopable acre consisting of floodplain, parks, and open spaces. See “THE DEVELOPER,” “DEVELOPMENT OF THE DISTRICT,” and “THE DISTRICT.” D.R. Horton-Texas, LTD., a Texas limited partnership (“D.R. Horton” or the “Developer”), is the developer of land within the District.

D.R. Horton is the sole homebuilder that is actively constructing new homes in the District. New homes being constructed in the District range in price from approximately \$228,000 to \$326,000 and in size from approximately 1,600 to 3,000 square feet. See “DEVELOPMENT OF THE DISTRICT – Homebuilder within the District.”

Status of Development within the District

The following shows the status of construction of single-family housing within the District as July 1, 2020:

Shahan Lakeview	Section Acreage	Section Lots	Homes Completed	Homes Under Construction	Vacant Lots
Phase 1	49.187	211	200	0	11
Phase 2	<u>52.251</u>	<u>191</u>	<u>85</u>	<u>49</u>	<u>57</u>
Totals	101.438	402	285	49	68
 Residential Developed	 101.438				
Undevelopable	1.00				
Remaining Developable	<u>0.00</u>				
 District Total	 102.438				

PUBLIC IMPROVEMENT DISTRICT

The City created a public improvement district, Shahan Prairie Road Public Improvement District No. 1 (the “PID”) pursuant to Chapter 372, Texas Local Government Code, as amended, in order to undertake public improvement projects that confer a special benefit on the property within the PID and to pay for such improvements by levying special assessments against property within the PID. The District is located wholly within the PID. The City has levied assessments on certain properties within the District which aggregate per parcel assessments of approximately \$10,900 with annual payments ranging from approximately \$875 to \$1,030. The majority of such assessments will be used to reimburse the Developer for the costs of public improvement projects constructed for the benefit of certain properties within the District. The City has also levied an aggregate per parcel assessment for maintenance and police, fire and first response EMS services (“DPS Services”) with annual payments of approximately \$740 and will be used to offset costs incurred by the City for certain maintenance expenses related to the public improvements and DPS Services.

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PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(July 2020)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(July 2020)



THE DEVELOPER

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.

D.R. Horton-Texas, LTD

D.R. Horton-Texas, LTD, a Texas limited partnership ("D.R. Horton" or the "Developer"), is the sole active developer of land within the District. D.R. Horton is developing the single-family residential subdivision of Shahan Lakeview.

As of July 1, 2020, D.R. Horton owned approximately 25 completed homes, approximately 68 vacant developed lots, and approximately 1.00 undeveloped acre in the District.

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.

THE SYSTEM

Regulation

According to the Engineer, the 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. 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 System

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 January 13, 2015, the District entered into a service agreement with Mustang (the "Agreement") to provide water capacity to service 402 equivalent single-family connections ("esfcs") within the District. Under the terms of the Agreement, the District will construct the internal water supply facilities necessary to service customers within the District's boundaries. Upon completion of such facilities, the facilities will be conveyed to Mustang. In consideration of the District's construction and conveying such facilities, Mustang shall assume all operation and maintenance responsibilities for the water facilities.

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 the UTRWD to provide 402 esfcs, as referenced above, which is sufficient to serve full development of 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 Contract entered into by and between the District and Mustang, 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.

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 402 esfcs, which is more than sufficient to serve the development of the District.

Drainage

The majority of the District lies adjacent to and drains directly to Lake Lewisville. Approximately 20 acres along the eastern edge of the District drains to the adjacent development to the east then drains to Lake Lewisville.

According to the District's Engineer, the District has constructed underground drainage infrastructure. The drainage infrastructure within the District utilizes curb inlets, area inlets, reinforced concrete pipe, concrete box culverts and drainage channels to collect and convey flows 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 530 to 590 feet above mean sea level. The land within the District slopes generally from 0% to 55%.

Approximately 6 acres of the District lie within the Federal Emergency Management Agency (herein defined as "FEMA") 100-year flood plain. 5 out of the 6 total acres are within Phase 2 platted area. This acreage has been planned as green space and will not be used for development.

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DISTRICT DEBT

Debt Service Requirement Schedule

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

Calendar Year	Outstanding Debt Service	Plus: The Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2020 (a)	\$ 77,328	-	-	-	\$ 77,328
2021	132,563	-	\$ 64,813	\$ 64,813	197,375
2022	272,563	\$ 75,000	64,813	139,813	412,375
2023	274,763	75,000	61,438	136,438	411,200
2024	276,863	80,000	58,063	138,063	414,925
2025	278,863	80,000	54,463	134,463	413,325
2026	280,763	80,000	50,863	130,863	411,625
2027	282,563	85,000	47,663	132,663	415,225
2028	284,056	85,000	44,263	129,263	413,319
2029	285,231	90,000	40,863	130,863	416,094
2030	286,075	90,000	37,263	127,263	413,338
2031	286,575	95,000	35,463	130,463	417,038
2032	286,950	95,000	33,563	128,563	415,513
2033	291,963	100,000	31,663	131,663	423,625
2034	291,463	100,000	29,663	129,663	421,125
2035	290,825	105,000	27,663	132,663	423,488
2036	295,050	105,000	25,563	130,563	425,613
2037	294,000	110,000	23,463	133,463	427,463
2038	292,250	110,000	21,263	131,263	423,513
2039	295,350	115,000	19,063	134,063	429,413
2040	293,150	115,000	16,763	131,763	424,913
2041	295,800	120,000	14,175	134,175	429,975
2042	298,150	125,000	11,475	136,475	434,625
2043	295,200	125,000	8,663	133,663	428,863
2044	297,100	130,000	5,850	135,850	432,950
2045	298,700	130,000	2,925	132,925	431,625
Total	\$ 7,134,153	\$ 2,420,000	\$ 831,713	\$ 3,251,713	\$10,385,866

(a) Debt service on the Outstanding Bonds as of the date hereof.

Average Annual Debt Service Requirement (2020-2045)	\$399,456
Maximum Annual Debt Service Requirement (2042).....	\$434,625

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Bonded Indebtedness

2019 Taxable Assessed Valuation.....	\$ 39,466,850	(a)
2020 Certified Estimated Value	\$ 67,160,066	(b)
Estimate of Value as of June 1, 2020	\$ 82,800,000	(c)
Direct Debt:		
The Outstanding Bonds.....	\$ 4,950,000	
The Bonds	\$ <u>2,420,000</u>	
Total.....	\$ 7,370,000	
Estimated Overlapping Debt	\$ <u>2,692,422</u>	(d)
Total Direct and Estimated Overlapping Debt	\$ 10,062,422	(d)
Direct Debt Ratios:		
As a percentage of the 2019 Taxable Assessed Valuation.....	18.67	%
As a percentage of the 2020 Certified Estimated Value	10.97	%
As a percentage of the Estimate of Value as of June 1, 2020	8.90	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of the 2019 Taxable Assessed Valuation.....	25.50	%
As a percentage of the 2020 Certified Estimated Value	14.98	%
As a percentage of the Estimate of Value as of June 1, 2020	12.15	%
Debt Service Fund Balance (as of July 20, 2020).....	\$ 200,246	(e)
General Operating Fund Balance (as of July 20, 2020).....	\$ 244,991	(f)
Capital Projects Fund Balance (as of July 20, 2020)	\$ 14,229	
2019 Tax Rate per \$100 of Taxable Assessed Valuation		
Debt Service	\$0.00	(g)
Maintenance and Operation.....	<u>\$0.63</u>	
Total.....	\$0.63	(h)

-
- (a) Represents the taxable assessed valuation of all taxable property in the District as of January 1, 2019, as provided by the Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
 - (b) Provided by the Appraisal District, such value represents the Appraisal District's estimation of certified valuation of all taxable property located within the District as of January 1, 2020. Such value indicates \$1,445,087 amount of assessed valuation under review by the Denton County Appraisal Review Board (the "Appraisal Review Board"); which represents 80% of such value under review. No taxes will be levied on this certified estimate of taxable value, which is subject to review and downward adjustment prior to certification. After the value is certified by the Appraisal Review Board, taxes will be levied on the certified value. It is anticipated that the Appraisal District will provide the certified taxable assessed valuation as of January 1, 2020 by the end of September 2020. See "TAX DATA" and "TAXING PROCEDURES."
 - (c) Provided by the 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 June 1, 2020, and includes an estimate of additional taxable value resulting from additional of taxable improvements constructed in the District from January 1, 2020, through June 1, 2020. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
 - (d) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
 - (e) Includes an estimate of six (6) months of capitalized interest to be deposited into the 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 debt service fund.
 - (f) See "RISK FACTORS – Operating Funds."
 - (g) The District anticipates that it will levy a tax for payment of debt service in 2020. See "THE BONDS – Source of Payment."
 - (h) For the 2020 tax year, the District expects to levy a total tax rate of \$0.63 per \$100 of assessed valuation composed of a \$0.125 tax rate for maintenance and operation purposes and \$0.505 for debt service purposes.

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 June 30, 2020	Overlapping	
		Percent	Amount
Denton County	\$ 638,280,000	0.04%	\$ 232,809
Little Elm ISD	315,439,212	0.78%	<u>2,459,613</u>
Total Estimated Overlapping Debt			\$ 2,692,422
The District (a).....			<u>\$ 7,370,000</u>
Total Direct & Estimated Overlapping Debt (b).....			\$ 10,062,422

(a) The Bonds and the Outstanding Bonds.

(b) Includes the Bonds.

Debt Ratios

Direct Debt Ratios:

As a percentage of the 2019 Taxable Assessed Valuation.....	18.67 %
As a percentage of the 2020 Certified Estimated Value	10.97 %
As a percentage of the Estimate of Value as of June 1, 2020	8.90 %

Direct and Estimated Overlapping Debt Ratios:

As a percentage of the 2019 Taxable Assessed Valuation.....	25.50 %
As a percentage of the 2020 Certified Estimated Value	14.98 %
As a percentage of the Estimate of Value as of June 1, 2020	12.15 %

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General Fund Operating Statement

The following is a summary of the District's general fund activity for the last five fiscal years. The summary has been prepared by the Financial Advisor based upon information obtained from the District's audited financial statements. Reference is made to such statements for further and more complete information. See "APPENDIX A."

	For Fiscal Year Ended January 31				
	2020	2019	2018	2017	2016
Revenues					
Property Taxes	\$ 53,627	\$ 74,953	\$ 11,183	\$ 11,123	\$ 11,905
Penalty and Interest	-	10,446	-	1,521	-
Interest on Deposits	<u>1,753</u>	<u>57</u>	<u>6</u>	<u>4</u>	<u>7</u>
Total Revenues	\$ 55,380	\$ 85,456	\$ 11,189	\$ 12,648	\$ 11,912
Expenditures					
Professional Fees	\$ 31,762	\$ 16,607	\$ 23,488	\$ 53,252	\$ 7,612
Contracted Services	8,353	3,661	3,808	4,187	861
Administrative Expenditures	8,500	7,421	11,023	10,443	4,384
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	\$ 48,615	\$ 27,689	\$ 38,319	\$ 67,882	\$ 12,857
Net Revenues (Deficit)	\$ 6,765	\$ 57,767	\$ (27,130)	\$ (55,234)	\$ (945)

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 Outstanding Bonds, the Bonds and any additional bonds payable from taxes that the District may hereafter issue for the 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." 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 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 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

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; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years of age 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 the 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 certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential 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, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads but not less than \$5,000, if any exemption is granted, from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District has never adopted a homestead exemption. See "TAX DATA."

Freeport Goods 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 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. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all 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, open space land and timberland.

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

Reappraisal of Property after Disaster

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

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, 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

Chapter 49 of the Texas Water Code, as amended, 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 "Special Taxing Units." 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 can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

Special Taxing Units

Special Taxing Units 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 an 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 Special Taxing Unit 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 an 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 Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

Developing Districts

Districts that do not meet the classification of a Special Taxing Unit or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing 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 an election is called and passes, the total tax rate for Developing 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 Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis, 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 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 \$0.63 per \$100 taxable assessed valuation for maintenance and operations. For the 2020 tax year, the District expects to levy a total tax rate of \$0.63 per \$100 of assessed valuation composed of a \$0.125 tax rate for maintenance and operation purposes and \$0.505 for debt service purposes.

Tax Rate Limitation

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

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 without legal limitation as to rate or amount. 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 Bonds and the Outstanding Bonds if no growth in the District’s tax base occurs beyond the taxable assessed valuation as of January 1, 2019 (\$39,466,850), the certified estimated value as of January 1, 2020 (\$67,160,066), or the estimate of value as of June 1, 2020 (\$82,800,000). The calculations assume collection of 95% of taxes levied, the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirement (2020–2045)	\$399,456
Debt Service Tax Rate of \$1.07 on the 2019 Taxable Assessed Valuation produces	\$401,181
Debt Service Tax Rate of \$0.63 on the 2020 Certified Estimated Value produces.....	\$401,953
Debt Service Tax Rate of \$0.51 on the Estimate of Value as of June 1, 2020, produces	\$401,166
Maximum Annual Debt Service Requirement (2042).....	\$434,625
Debt Service Tax Rate of \$1.16 on the 2019 Taxable Assessed Valuation produces	\$434,925
Debt Service Tax Rate of \$0.69 on the 2020 Certified Estimated Value produces.....	\$440,234
Debt Service Tax Rate of \$0.56 on the Estimate of Value as of June 1, 2020, produces	\$440,496

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	\$0.630000 (a)
Denton County	0.225279
<u>Little Elm ISD</u>	<u>1.538300</u>
Total Tax Rate	\$2.393578 (b)

- (a) This is the District’s 2020 expected levy.
- (b) Does not include PID assessments on certain property in the District which aggregate per parcel assessments of approximately \$10,900 with annual payments ranging from approximately \$875 to \$1,030. The majority of such assessments will be used to reimburse the Developer for the costs of public improvement projects constructed for the benefit of the certain properties within the District. The City has also levied an aggregate per parcel assessment for maintenance and police, fire and first response EMS services (“DPS Services”) with annual payments of approximately \$740 and will be used to offset costs incurred by the City for certain maintenance expenses related to the public improvements and DPS Services. See “PUBLIC IMPROVEMENT DISTRICT.”

Historical Tax Collections

Tax Year	Assessed Valuation	Tax Rate	Adjusted Levy	Collections Current Year	Current Year Ended 9/30	Collections 06/30/20
2014	\$ 1,202,528	\$0.990000	\$ 11,905	100.00%	2015	100.00%
2015	1,123,570	0.990000	11,123	100.00%	2016	100.00%
2016	1,129,577	0.990000	11,183	100.00%	2017	100.00%
2017	2,606,966	0.630000	16,424	100.00%	2018	100.00%
2018	8,517,945	0.630000	53,663	99.93%	2019	99.93%
2019	39,466,850	0.630000	248,641	99.21%	2020	99.21%

Tax Rate Distribution

	2020	2019	2018	2017	2016	2015	2014
Debt Service	\$0.5050	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
<u>Maintenance and Operations</u>	<u>\$0.1250</u>	<u>\$0.6300</u>	<u>\$0.6300</u>	<u>\$0.6300</u>	<u>\$0.9900</u>	<u>\$0.9900</u>	<u>\$0.9900</u>
Total District Tax Rate	\$0.6300	\$0.6300	\$0.6300	\$0.6300	\$0.9900	\$0.9900	\$0.9900

Taxable Assessed Valuation Summary

The following represents the type of property comprising the 2015–2019 tax rolls as certified and the 2020 tax roll as estimated by the Appraisal District.

Type of Property	2020 Certified Estimate of Taxable Value (a)	2019 Taxable Assessed Valuation	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation
Land	\$22,572,030	\$14,303,769	\$8,168,976	\$2,606,966	\$2,606,966	\$2,600,959
Improvements	45,399,672	25,735,537	328,597	0	0	0
Personal Property	58,571	36,978	36,978	0	169	195
Exemptions	<u>(870,207)</u>	<u>(609,434)</u>	<u>(16,606)</u>	<u>(0)</u>	<u>(1,477,558)</u>	<u>(1,477,584)</u>
Total	\$67,160,066	\$39,466,850	\$8,517,945	\$2,606,966	\$1,129,577	\$1,123,570

- (a) Provided by the Appraisal District, such value represents the Appraisal District's estimation of certified valuation of all taxable property located within the District as of January 1, 2020. Such value indicates \$1,445,087 amount of assessed valuation under review by the Appraisal Review Board; which represents 80% of such value under review. No taxes will be levied on this certified estimate of taxable value, which is subject to review and downward adjustment prior to certification. After the value is certified by the Appraisal Review Board, taxes will be levied on the certified value. It is anticipated that the Appraisal District will provide the certified taxable assessed valuation as of January 1, 2020 by the end of September 2020. See "TAXING PROCEDURES."

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.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation 2019 Tax Roll</u>	<u>Percent of 2019 Tax Roll</u>
DR Horton TX LTD (a)	Land & Improvements	\$ 3,540,055	8.97%
Homeowner	Residential	324,725	0.82%
Homeowner	Residential	313,261	0.79%
Homeowner	Residential	308,919	0.78%
Homeowner	Residential	307,554	0.78%
Homeowner	Residential	307,304	0.78%
Homeowner	Residential	305,241	0.77%
Homeowner	Residential	305,241	0.77%
Homeowner	Residential	302,567	0.77%
Homeowner	Residential	297,680	0.75%
Total		<u>\$ 6,312,547</u>	<u>15.99%</u>

(a) See "THE DEVELOPER."

The following represents the principal taxpayers, type of property, and their certified estimate of taxable values within the District as of January 1, 2020. Such value indicates \$1,445,087 amount of assessed valuation under review by the Appraisal Review Board; which represents 80% of such value under review. No taxes will be levied on this certified estimate of taxable value, which is subject to review and downward adjustment prior to certification. After the value is certified by the Appraisal Review Board, taxes will be levied on the certified value. It is anticipated that the Appraisal District will provide the certified taxable assessed valuation as of January 1, 2020 by the end of September 2020. See "TAXING PROCEDURES."

<u>Taxpayer</u>	<u>Type of Property</u>	<u>Certified Estimate of Taxable Value as of January 1, 2020</u>	<u>Percent of 2020 Tax Roll</u>
DR Horton TX LTD (a)	Land & Improvements	\$ 6,581,071	16.67%
Homeowner	Residential	346,908	0.88%
Homeowner	Residential	317,567	0.80%
Homeowner	Residential	316,056	0.80%
Homeowner	Residential	314,629	0.80%
Homeowner	Residential	313,851	0.80%
Homeowner	Residential	313,225	0.79%
Homeowner	Residential	311,839	0.79%
Homeowner	Residential	311,781	0.79%
Homeowner	Residential	311,781	0.79%
Total		<u>\$ 9,438,708</u>	<u>23.92%</u>

(a) See "THE DEVELOPER."

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

Tax Exemption

On the date of initial delivery of the Bonds, Coats Rose, P.C., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross

income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

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

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

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

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

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 may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH 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.

Qualified Tax-Exempt Obligations

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

The District has, pursuant to the Bond Order, designated the Bonds as "qualified tax-exempt obligations" and certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions that purchase the Bonds will not be subject to the 100 percent disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, 20 percent of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds would not be deductible pursuant to Section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the "SEC") regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the Bond Order, the District has made the following agreement for the benefit of the 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 events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain financial information and operating data, which is customarily prepared by the District and which is publicly available annually to the MSRB. The financial information and operating data that will be provided with respect to the District is found in the section titled "APPENDIX A - Financial Statements of the District." The District will update and provide this information to the MSRB through its EMMA system within six months after the end of each of its fiscal years ending in or after 2020. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial

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

The District's current fiscal year end is 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 specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR §240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a debt obligation or derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt obligation of the District, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, 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. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from 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

Since it entered into its first continuing disclosure agreement in July 2020, the District had complied in all material respects with its continuing disclosure agreement pursuant to SEC Rule 15c2-12.

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the Developer, 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, 2020, were prepared by Mark C. Eyring, CPA, PLLC and have been attached hereto as "APPENDIX A." Mark C. Eyring, CPA, PLLC, 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 DEVELOPER" and "DEVELOPMENT OF THE DISTRICT" has been provided by the Developer 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 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," and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to 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.

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 Oak Point Water Control and Improvement District No. 3 of Denton County as of the date shown on the cover page hereof.

/s/ Jerry Wright
President, Board of Directors
Oak Point Water Control and Improvement District No. 3

ATTEST:

/s/ Alison Murray
Secretary, Board of Directors
Oak Point Water Control and Improvement District No. 3

APPENDIX A
Financial Statements of the District

OAK POINT WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 3
DENTON COUNTY, TEXAS
ANNUAL AUDIT REPORT
JANUARY 31, 2020

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Mark C. Eyring, CPA, PLLC

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Mark@EyringCPA.com

July 20, 2020

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oak Point Water Control and
Improvement District No. 3
Denton County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Oak Point Water Control and Improvement District No. 3, as of and for the year ended January 31, 2020, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 assessment of the risk 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 entity's internal control. Accordingly I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Oak Point Water Control and Improvement District No. 3 as of January 31, 2020, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Emphasis of Matters**

As discussed in Note 6 of the Notes to the Financial Statements, the District's tax base is concentrated in a small number of taxpayers, including the District's developer. My opinions are not modified with respect to these matters.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 17 be presented to supplement the basic financial statements. Such information, although not 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 18 to 27 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in black ink, appearing to read "M. A. J.", is located at the bottom right of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Oak Point Water Control and Improvement District No. 3 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended January 31, 2020.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of sewer, drainage and road services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures for water, sewer, drainage and road systems from this fund are subject to the Rules of the Texas Commission on Environmental Quality and/or the Bond Orders. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and service revenues and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District’s overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	2020	2019	Change
Current and other assets	\$ 327,886	\$ 114,120	\$ 213,766
Capital assets	6,852,412	4,931,678	1,920,734
Total assets	7,180,298	5,045,798	2,134,500
Long-term liabilities	6,994,707	5,073,973	1,920,734
Other liabilities	14,580	2,537	12,043
Total liabilities	7,009,287	5,076,510	1,932,777
Total deferred inflows of resources	248,641	53,720	194,921
Net position:			
Unrestricted	(77,630)	(84,432)	6,802
Total net position	\$ (77,630)	\$ (84,432)	\$ 6,802

Summary of Changes in Net Position

	2020	2019	Change
Revenues:			
Property taxes, including related penalty and interest	\$ 53,664	\$ 85,435	\$ (31,771)
Other	1,753	57	1,696
Total revenues	55,417	85,492	(30,075)
Expenses:			
Service operations	48,615	27,689	20,926
Capital outlay	0	0	0
Total expenses	48,615	27,689	20,926
Change in net position	6,802	57,803	(51,001)
Net position, beginning of year	(84,432)	(142,235)	57,803
Net position, end of year	\$ (77,630)	\$ (84,432)	\$ 6,802

Financial Analysis of the District’s Funds

The District’s General Fund balance as of the end of the fiscal year ended January 31, 2020, was \$64,592. The General Fund balance increased by \$6,765, in accordance with the District’s financial plan.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District’s budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 17 of this report. The budgetary fund balance as of January 31, 2020, was expected to be \$150,273 and the actual end of year fund balance was \$64,592.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2020</u>	<u>2019</u>	<u>Change</u>
Construction in progress	<u>\$ 6,852,412</u>	<u>\$ 4,931,678</u>	<u>\$ 1,920,734</u>

Changes to capital assets during the fiscal year ended January 31, 2020, are summarized as follows:

Additions:

Utilities constructed by developer	<u>\$ 1,920,734</u>
Net change to capital assets	<u>\$ 1,920,734</u>

Debt

Subsequent to January 31, 2020, the District issued its \$4,950,000 Series 2020 Unlimited Tax Bonds on February 20, 2020.

At January 31, 2020, the District had \$16,180,000 unlimited tax bonds authorized but unissued for water, sanitary sewer and drainage purposes authorized but unissued.

As further described in Note 5 of the notes to the financial statements, the developer within the District has advanced funds to the District to cover initial operating deficits. As of January 31, 2020, the cumulative amount of developer advances for this purpose was \$142,295.

As further described in Note 5 of the notes to the financial statements, the developer within the District is constructing water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Texas Commission on Environmental Quality. At January 31, 2020, the estimated amount due to the developer was \$6,852,412.

ADDITIONAL RELEVANT FACTORS

Property Tax Base

The District's tax base increased approximately \$30,950,000 (approximately 363%) for the 2019 tax year primarily due to the addition of new homes and property to the tax base.

The District's tax base is concentrated in a small number of taxpayers. The District's developer owns a substantial portion of land within the District. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet the debt service obligations described in Note 5 of the Notes to the Financial Statements.

Relationship to the City of Oak Point

The District lies wholly within the extraterritorial jurisdiction of the City of Oak Point (the "City"). Under existing Texas law, because the District lies wholly within the extraterritorial jurisdiction of the City, the District may be annexed by the City. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Water Supply Issues

Effective March 2, 2015, the developer entered into a Non-Standard Service Agreement (the "Agreement") with Mustang Special Utility District ("Mustang SUD"). The District lies wholly within Mustang SUD's service area for both water and wastewater services. Under the terms of the Agreement, the District will construct, or have constructed, water production and distribution system and a wastewater collection and treatment system. Upon completion of such systems, the systems will be conveyed to Mustang SUD. In consideration of the District's construction and conveying such systems, Mustang SUD shall assume all operation and maintenance responsibilities for the water and wastewater systems.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to the District. Contact information for the District is listed on Page 26 of this report.

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
JANUARY 31, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 25,510	\$	\$	\$ 25,510	\$	\$ 25,510
Certificates of deposit, at cost, Note 7	81,520			81,520		81,520
Temporary investments, at cost, Note 7	150,187			150,187		150,187
Property taxes receivable	11,341			11,341		11,341
Prepaid expenditures	59,328			59,328		59,328
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	6,852,412	6,852,412
Total assets	<u>\$ 327,886</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 327,886</u>	<u>6,852,412</u>	<u>7,180,298</u>
LIABILITIES						
Accounts payable	\$ 14,580	\$	\$	\$ 14,580		14,580
Long-term liabilities, Note 5:						
Due in more than one year				0	6,994,707	6,994,707
Total liabilities	<u>14,580</u>	<u>0</u>	<u>0</u>	<u>14,580</u>	<u>6,994,707</u>	<u>7,009,287</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>248,714</u>	<u>0</u>	<u>0</u>	<u>248,714</u>	<u>(73)</u>	<u>248,641</u>
FUND BALANCES / NET POSITION						
Unassigned fund balance	<u>64,592</u>			<u>64,592</u>	<u>(64,592)</u>	<u>0</u>
Total fund balances	<u>64,592</u>	<u>0</u>	<u>0</u>	<u>64,592</u>	<u>(64,592)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 327,886</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 327,886</u>		
Net position:						
Unrestricted, Note 5					<u>(77,630)</u>	<u>(77,630)</u>
Total net position					<u>\$ (77,630)</u>	<u>\$ (77,630)</u>

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

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JANUARY 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 53,627	\$	\$	\$ 53,627	\$ 37	\$ 53,664
Interest on deposits	1,753			1,753		1,753
Total revenues	<u>55,380</u>	<u>0</u>	<u>0</u>	<u>55,380</u>	<u>37</u>	<u>55,417</u>
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	31,762			31,762		31,762
Contracted services	8,353			8,353		8,353
Administrative expenditures	8,500			8,500		8,500
Capital outlay / non-capital outlay				<u>0</u>		<u>0</u>
Total expenditures / expenses	<u>48,615</u>	<u>0</u>	<u>0</u>	<u>48,615</u>	<u>0</u>	<u>48,615</u>
Excess (deficiency) of revenues over expenditures	<u>6,765</u>	<u>0</u>	<u>0</u>	<u>6,765</u>	<u>37</u>	<u>6,802</u>
Net change in fund balances / net position	6,765	0	0	6,765	37	6,802
Beginning of year	<u>57,827</u>	<u>0</u>	<u>0</u>	<u>57,827</u>	<u>(142,259)</u>	<u>(84,432)</u>
End of year	<u>\$ 64,592</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 64,592</u>	<u>\$ (142,222)</u>	<u>\$ (77,630)</u>

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

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3NOTES TO THE FINANCIAL STATEMENTSJANUARY 31, 2020

NOTE 1: REPORTING ENTITY

Oak Point Water Control and Improvement District No. 3 (the "District") was created by an order of the Texas Commission on Environmental Quality on September 7, 2005, pursuant to Article XVI, Section 59 of the Texas Constitution and the Texas Water Code, Chapters 49 and 51, as amended. The District is located within the extra territorial jurisdiction of the City of Oak Point and within Denton County, Texas. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on October 3, 2005. The District is subject to the continuing supervision of the TCEQ with respect to water, wastewater and drainage.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services and operate and maintain recreational facilities. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The District first utilizes restricted resources to finance qualifying activities. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts and other receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years
Roads	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year	\$	64,592
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		
Total capital assets, net		6,852,412
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Due to developer for operating advances	\$	(142,295)
Due to developer for construction		<u>(6,852,412)</u> (6,994,707)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable		
Uncollected property taxes		<u>73</u>
Net position, end of year	\$	<u>(77,630)</u>

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances	\$	6,765
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:		
Uncollected property taxes		<u>37</u>
Change in net position	\$	<u>6,802</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

As further described in Note 9, under the terms of the agreement with Mustang Special Utility District (“Mustang SUD”), the District is to pay for construction of a water production and distribution system, a sanitary sewer collection and treatment system, and a drainage system to serve the District. The District shall be the owner of each phase of the construction of each system until such phase is completed and approved by Mustang SUD, at which time ownership of such phase shall be transferred to Mustang SUD. However, the District shall have a security interest therein until all bonds issued by the District pursuant to the agreement are retired.

Capital asset activity for the fiscal year ended January 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 4,931,678	\$ 1,920,734	\$ 0	\$ 6,852,412
Total capital assets not being depreciated	<u>4,931,678</u>	<u>1,920,734</u>	<u>0</u>	<u>6,852,412</u>
 Total capital assets, net	 <u>\$ 4,931,678</u>	 <u>\$ 1,920,734</u>	 <u>\$ 0</u>	 <u>\$ 6,852,412</u>
Changes to capital assets:				
Increase in liability to developer		\$ 1,920,734	\$ 0	
Net increases / decreases to capital assets		<u>\$ 1,920,734</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Subsequent to January 31, 2020, the District issued its \$4,950,000 Series 2020 Unlimited Tax Bonds on February 20, 2020.

Long-term liability activity for the fiscal year ended January 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Due to developer for operating advances (see below)	\$ 142,295	\$ 0	\$ 0	\$ 142,295	-----
Due to developer for construction (see below)	<u>4,931,678</u>	<u>1,920,734</u>	<u>0</u>	<u>6,852,412</u>	-----
Total due to developer	<u>5,073,973</u>	<u>1,920,734</u>	<u>0</u>	<u>6,994,707</u>	<u>0</u>
Total long-term liabilities	<u>\$ 5,073,973</u>	<u>\$ 1,920,734</u>	<u>\$ 0</u>	<u>\$ 6,994,707</u>	<u>\$ 0</u>

Developer Construction Commitments, Liabilities and Advances

The developer within the District has advanced funds to the District to cover initial operating deficits. At January 31, 2020, the cumulative amount of unreimbursed developer advances was \$142,295. These amounts have been recorded in the government-wide financial statements and in the schedules in Note 5. This amount has been recorded as a decrease in “Unrestricted net position” in the government-wide financial statements. Without this decrease, “Unrestricted net position” would have a balance of \$64,665.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The developer within the District has constructed certain underground facilities within the District's boundaries. The District has agreed to reimburse the developer for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of future bond issues to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that unreimbursed cost of the construction in progress at January 31, 2020, was \$6,852,412. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

Water, sewer and drainage bonds voted	\$ 16,180,000
Water, sewer and drainage bonds approved for sale and sold	0
Water, sewer and drainage bonds voted and not issued	16,180,000

NOTE 6: PROPERTY TAXES AND CONCENTRATION OF TAX BASE

The Denton County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

At an election held May 13, 2006, the voters within the District authorized an unlimited maintenance tax on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District. There is no tax limitation on the rate or amount of taxes that can be levied to pay debt service on water, wastewater and drainage bonds or to satisfy the District's contractual obligations related to the joint utility contract with the City of Oak Point.

On August 22, 2019, the District levied the following ad valorem taxes for the 2019 tax year and the 2021 fiscal year on the adjusted taxable valuation of \$39,466,850:

	<u>Rate</u>	<u>Amount</u>
Maintenance	\$ 0.63000	\$ 248,641

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2019 tax year total property tax levy	\$ 248,641
2019 tax year total property tax levy deferred to 2021 fiscal year	(248,641)
2018 tax year total property tax levy deferred to 2020 fiscal year	53,721
Appraisal district adjustments to prior year taxes	<u>(57)</u>
Statement of Activities property tax revenues	<u>\$ 53,664</u>

Concentration of Tax Base

The District's tax base is concentrated in a small number of taxpayers. The District's developer owns a substantial portion of land within the District. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet the debt service obligations described in Note 5.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7: DEPOSITS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in Local Government Investment Cooperative ("LOGIC"), a local government investment pool. LOGIC is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in LOGIC was \$150,187.

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past two fiscal years. At January 31, 2020, the District had comprehensive general liability insurance coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general limit and consultant's crime coverage of \$10,000.

NOTE 9: AGREEMENT WITH MUSTANG SPECIAL UTILITY DISTRICT

Effective March 2, 2015, the developer entered into a Non-Standard Service Agreement (the "Agreement") with Mustang Special Utility District ("Mustang SUD"). The District lies wholly within Mustang SUD's service area for both water and wastewater services. Under the terms of the Agreement, the District will construct, or have constructed, water production and distribution system and a wastewater collection and treatment system. Upon completion of such systems, the systems will be conveyed to Mustang SUD. In consideration of the District's construction and conveying such systems, Mustang SUD shall assume all operation and maintenance responsibilities for the water and wastewater systems.

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED JANUARY 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 120,000	\$ 120,000	\$ 53,627	\$ (66,373)
Interest on deposits	<u>0</u>	<u>0</u>	<u>1,753</u>	<u>1,753</u>
TOTAL REVENUES	<u>120,000</u>	<u>120,000</u>	<u>55,380</u>	<u>(64,620)</u>
EXPENDITURES				
Service operations:				
Professional fees	12,630	12,630	31,762	19,132
Contracted services	4,281	4,281	8,353	4,072
Administrative expenditures	10,643	10,643	8,500	(2,143)
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>27,554</u>	<u>27,554</u>	<u>48,615</u>	<u>21,061</u>
EXCESS REVENUES (EXPENDITURES)	92,446	92,446	6,765	(85,681)
FUND BALANCE, BEGINNING OF YEAR	<u>57,827</u>	<u>57,827</u>	<u>57,827</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 150,273</u>	<u>\$ 150,273</u>	<u>\$ 64,592</u>	<u>\$ (85,681)</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
JANUARY 31, 2020

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- TSI-1. Services and Rates
- TSI-2. General Fund Expenditures
- TSI-3. Temporary Investments
- TSI-4. Taxes Levied and Receivable
- TSI-5. Long-Term Debt Service Requirements by Years
Not applicable.
- TSI-6. Changes in Long-Term Bonded Debt
Not applicable.
- TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
Debt Service Fund not applicable.
- TSI-8. Board Members, Key Personnel and Consultants

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3

SCHEDULE OF SERVICES AND RATES

JANUARY 31, 2020

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

Not Applicable. See Note 9 of the Notes to the Financial Statements.

b. Water and Wastewater Retail Connections:

Not Applicable. See Note 9 of the Notes to the Financial Statements.

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Not Applicable. See Note 9 of the Notes to the Financial Statements.

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3EXPENDITURESFOR THE YEAR ENDED JANUARY 31, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 3,950	\$	\$	3,950
Legal	20,374			20,374
Engineering	7,438			7,438
	<u>31,762</u>	<u>0</u>	<u>0</u>	<u>31,762</u>
Contracted services:				
Bookkeeping	6,622			6,622
Tax assessor-collector	225			225
Appraisal district	1,506			1,506
	<u>8,353</u>	<u>0</u>	<u>0</u>	<u>8,353</u>
Administrative expenditures:				
Director's fees	3,300			3,300
Insurance	2,992			2,992
Other	2,208			2,208
	<u>8,500</u>	<u>0</u>	<u>0</u>	<u>8,500</u>
CAPITAL OUTLAY				
Authorized expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>\$ 48,615</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 48,615</u>

See accompanying independent auditor's report.

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3ANALYSIS OF CHANGES IN DEPOSITS
ALL GOVERNMENTAL FUND TYPESFOR THE YEAR ENDED JANUARY 31, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS				
Cash receipts from revenues	\$ 274,107	\$	\$	\$ 274,107
TOTAL DEPOSITS PROVIDED	<u>274,107</u>	<u>0</u>	<u>0</u>	<u>274,107</u>
APPLICATIONS OF DEPOSITS				
Cash disbursements for:				
Current expenditures	36,572			36,572
Prepaid expenditures	<u>59,328</u>			<u>59,328</u>
TOTAL DEPOSITS APPLIED	<u>95,900</u>	<u>0</u>	<u>0</u>	<u>95,900</u>
INCREASE (DECREASE) IN DEPOSITS	178,207	0	0	178,207
DEPOSITS BALANCES, BEGINNING OF YEAR	<u>79,010</u>	<u>0</u>	<u>0</u>	<u>79,010</u>
DEPOSITS BALANCES, END OF YEAR	<u>\$ 257,217</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 257,217</u>

See accompanying independent auditor's report.

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3SCHEDULE OF TEMPORARY INVESTMENTSJANUARY 31, 2020

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Local Government Investment Cooperative				
No. 1123884001	Market	On demand	\$ <u>150,187</u>	\$ <u>0</u>

See accompanying independent auditor's report.

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED JANUARY 31, 2020

	<u>Maintenance Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 35,110
Additions and corrections to prior year taxes	<u>(57)</u>
Adjusted receivable, beginning of year	35,053
2019 ADJUSTED TAX ROLL	<u>248,641</u>
Total to be accounted for	283,694
Tax collections: Current tax year	(237,373)
Prior tax years	<u>(34,980)</u>
RECEIVABLE, END OF YEAR	<u>\$ 11,341</u>
RECEIVABLE, BY TAX YEAR	
2017	\$ 37
2018	36
2019	<u>11,268</u>
RECEIVABLE, END OF YEAR	<u>\$ 11,341</u>

Fiscal year 2020 General Fund property tax revenue of \$53,627 under the modified accrual basis of accounting is comprised of prior tax year collections of \$34,980 during fiscal year 2020 and 2018 tax year collections of \$18,647 during fiscal year 2019.

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3TAXES LEVIED AND RECEIVABLE (Continued)FOR THE YEAR ENDED JANUARY 31, 2020

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 14,303,769	\$ 8,168,976	\$ 2,606,966	\$ 2,606,966
Improvements	25,735,537	328,597	0	0
Personal property	36,978	36,978	0	0
Less exemptions	<u>(609,434)</u>	<u>(16,606)</u>	<u>0</u>	<u>(1,477,389)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 39,466,850</u>	<u>\$ 8,517,945</u>	<u>\$ 2,606,966</u>	<u>\$ 1,129,577</u>
TAX RATES PER \$100 VALUATION				
Maintenance tax rates*	<u>\$ 0.63000</u>	<u>\$ 0.63000</u>	<u>\$ 0.63000</u>	<u>\$ 0.99000</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.63000</u>	<u>\$ 0.63000</u>	<u>\$ 0.63000</u>	<u>\$ 0.99000</u>
TAX ROLLS	<u>\$ 248,641</u>	<u>\$ 53,720</u>	<u>\$ 16,424</u>	<u>\$ 11,183</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>95.5 %</u>	<u>99.9 %</u>	<u>99.9 %</u>	<u>100 %</u>

*Maximum tax rate approved by voters on May 13, 2006: Unlimited

See accompanying independent auditor's report.

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED JANUARY 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2020	2019	2018*	2017	2016	2020	2019	2018	2017	2016
REVENUES										
Property taxes	\$ 53,627	\$ 74,953	\$ 11,183	\$ 11,123	\$ 11,905	96.8 %	87.7 %	99.9 %	88.0 %	99.9 %
Penalty	0	10,446		1,521		0.0	12.2		12.0	
Interest on deposits	1,753	57	6	4	7	3.2	0.1	0.1	0.0	0.1
TOTAL REVENUES	55,380	85,456	11,189	12,648	11,912	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Service operations:										
Professional fees	31,762	16,607	23,488	53,252	7,612	57.4	19.4	210.0	421.0	63.9
Contracted services	8,353	3,661	3,808	4,187	861	15.1	4.3	34.0	33.1	7.2
Administrative expenditures	8,500	7,421	11,023	10,443	4,384	15.3	8.7	98.5	82.6	36.8
Capital outlay	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
TOTAL EXPENDITURES	48,615	27,689	38,319	67,882	12,857	87.8	32.4	342.5	536.7	107.9
EXCESS REVENUES (EXPENDITURES)	\$ 6,765	\$ 57,767	\$ (27,130)	\$ (55,234)	\$ (945)	12.2 %	67.6 %	(242.5) %	(436.7) %	(7.9) %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	N/A	N/A	N/A	N/A	N/A					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	N/A	N/A	N/A	N/A	N/A					

*District was funded primarily by developer advances for fiscal years 2018 and prior.

OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSJANUARY 31, 2020

Complete District Mailing Address: Oak Point Water Control and Improvement District No. 3
 c/o Coats Rose, P.C.
 14755 Preston Road, Suite 600
 Dallas, Texas 75254

District Business Telephone No.: 972-788-1600

Submission date of the most recent District Registration Form: April 7, 2020

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Jerry Wight c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Elected 5/02/20- 5/04/24	\$ 900	\$ 5	President
Sean Garrett c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Appointed 6/22/16- 5/07/22	900	125	Vice President
Allison Murray c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Appointed 6/22/16- 5/07/22	450	42	Secretary
Heather Barbee c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Appointed 6/22/16- 5/07/22	300	75	Assistant Secretary
Gina Lacy c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	Elected 5/02/20- 5/04/24	750	174	Assistant Secretary

See accompanying independent auditor's report.

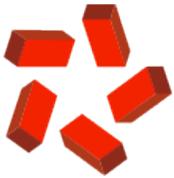
OAK POINT WATER CONTROL AND IMPROVEMENT DISTRICT NO. 3BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)JANUARY 31, 2020CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 75254	6/22/16	\$ 21,197	Attorney
Dye & Toverly, LLC 2309 Coit Road, Suite B Plano, Texas 75075	1/18/08	6,644	Bookkeeper
Debbie Trautmann Kathi Dye, CPA, LLC 2309 Coit Road, Suite B Plano, Texas 75075	1/18/08	0	Investment Officer
LJA Engineering, Inc. 7500 Rialto Blvd., Suite 100 Austin, Texas 78735	1/15/19	7,438	Engineer
Denton County Tax Assessor-Collector P.O. Box 90223 Denton, Texas 76202	8/28/14	225	Tax Assessor- Collector
Denton Central Appraisal District P.O. Box 2816 Denton, Texas 76202	Legislative Action	1,506	Central Appraisal District
Robert W. Baird & Co. 1331 Lamar, Suite 1360 Houston, Texas 77010	9/12/16	0	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	5/22/19	3,950	Independent Auditor

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN