

OFFICIAL STATEMENT DATED MAY 25, 2021

Rating:
S&P: "AA" (Stable Outlook)/Insured
Moody's: "A3"/Underlying
Insurance: BAM
See: "MUNICIPAL BOND
RATING AND INSURANCE"

NEW ISSUE – BOOK-ENTRY-ONLY

Delivery of the Bonds (defined herein) is subject to the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District, to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.

THE DISTRICT HAS DESIGNATED THE BONDS AS QUALIFIED TAX-EXEMPT OBLIGATIONS.
See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions" herein.

\$2,580,000
PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

Dated: June 22, 2021

Due: September 1, as shown on the inside cover page

Interest to accrue from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the \$2,580,000 Paloma Lake Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds") will accrue from the Date of Initial Delivery, set forth below, and is payable September 1, 2021 and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrars for the Bonds is BOKF, NA, Dallas, Texas (the "Paying Agent"). The Bonds are obligations solely of the Paloma Lake Municipal Utility District No. 1 (the "District") and are not obligations of Round Rock; Williamson County, Texas; the State of Texas; or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of and Security for Payment." THE BONDS ARE SUBJECT TO INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

PROCEEDS . . . Proceeds of the Bonds will be used to (i) refund a portion of the District's outstanding Unlimited Tax Bonds, Series 2014 as more particularly described in "SCHEDULE I – SCHEDULE OF REFUNDED BONDS" (the "Refunded Bonds") to achieve a debt service savings and (ii) pay the costs of issuance of the Bonds.



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM" or the "Bond Insurer") (see "BOND INSURANCE").

CUSIP PREFIX: 69750R
MATURITY SCHEDULE
See inside cover page

LEGALITY . . . The Bonds are offered by the underwriter named below (the "Underwriter") subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

DELIVERY . . . Delivery of the Bonds is expected through the facilities of DTC on June 22, 2021 (the "Date of Initial Delivery").

SAMCO CAPITAL

MATURITY SCHEDULE

9/1 Maturity	Principal Amount	Interest Rate	Initial Yield ^(a)	CUSIP Numbers ^(b)
2022	\$ 15,000	3.000%	0.400%	69750RJM0
2023	140,000	3.000%	0.440%	69750RJN8
2024	125,000	3.000%	0.650%	69750RJP3
2025	130,000	3.000%	0.830%	69750RJQ1
2026	135,000	3.000%	1.000%	69750RJR9
2027	145,000	3.000%	1.050% ^(c)	69750RJS7

\$310,000 1.125% Term Bonds due September 1, 2029 Priced to Yield 1.500%^(a) – 69750RJU2^(b)
\$290,000 1.500% Term Bonds due September 1, 2031 Priced to Yield 1.750%^(a) – 69750RJW8^(b)
\$275,000 2.000% Term Bonds due September 1, 2033 Priced to Yield 1.840%^{(a)(c)} – 69750RJY4^(b)
\$275,000 2.000% Term Bonds due September 1, 2035 Priced to Yield 1.950%^{(a)(c)} – 69750RKA4^(b)
\$365,000 2.000% Term Bonds due September 1, 2037 Priced to Yield 2.070%^(a) – 69750RKC0^(b)
\$375,000 2.000% Term Bonds due September 1, 2039 Priced to Yield 2.150%^(a) – 69750RKE6^(b)

(Interest to accrue from the Date of Initial Delivery)

- (a) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.
- (b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. None of the District, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers shown herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part as a result of the procurement of secondary market portfolio insurance or other similar enhancements by investors that is applicable to all or a portion of certain maturities of the Bonds.
- (c) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on September 1, 2026, the first optional redemption date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

REDEMPTION PROVISIONS . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2027, in whole or from time to time in part, on September 1, 2026, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Redemption.” Additionally, Term Bonds maturing on September 1 in the years 2029, 2031, 2033, 2035, 2037 and 2039 are subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption.”

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

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

No dealer, broker, salesman or other person has been authorized to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute, and is not authorized by the District for use in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District’s General Counsel, for further information. The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the 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. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

None of the District, the Financial Advisor or the Underwriter make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds.

Any reference to website 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 websites or information or links contained therein are not incorporated by reference into, and are not part of this Official Statement.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND, CONSEQUENTLY, HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE DISTRICT NOR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

TABLE OF CONTENTS

SALE AND DISTRIBUTION OF THE BONDS	4	TABLE 10 – DISTRICT TAX RATES	35
MUNICIPAL BOND RATING AND INSURANCE	4	TABLE 11 – PRINCIPAL TAXPAYERS.....	36
OFFICIAL STATEMENT SUMMARY	5	TAXING PROCEDURES	36
SELECTED FINANCIAL INFORMATION	8	LEGAL MATTERS	40
INTRODUCTION	9	TAX MATTERS	40
PLAN OF FINANCING	9	CONTINUING DISCLOSURE OF INFORMATION	42
THE BONDS	10	FINANCIAL ADVISOR	44
BOND INSURANCE	17	OFFICIAL STATEMENT	44
BOOK-ENTRY-ONLY SYSTEM	18	SCHEDULE I – SCHEDULE OF REFUNDED BONDS ..	45
INVESTMENT CONSIDERATIONS	20	APPENDICES	
THE DISTRICT	25	PHOTOGRAPHS	
THE SYSTEM	27	AUDITED FINANCIAL STATEMENTS	A
TABLE 1 – WATER, WASTEWATER AND DRAINAGE OPERATIONS RATE AND FEE SCHEDULE	28	FORM OF BOND COUNSEL’S OPINION	B
FINANCIAL STATEMENT	29	SPECIMEN MUNICIPAL BOND INSURANCE POLICY ...	C
TABLE 2 – OPERATING REVENUES AND EXPENSES STATEMENT	29		
TABLE 3 –DEBT SERVICE REQUIREMENTS	30		
TABLE 4 – TAXABLE ASSESSED VALUE.....	31		
TABLE 5 – UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED	31		
TABLE 6 – OUTSTANDING BONDS.....	32		
TABLE 7 – CASH AND INVESTMENT BALANCES.....	32		
TABLE 8 – CURRENT INVESTMENTS	34		
TAX DATA	35		
TABLE 9 – TAX COLLECTIONS	35		

The cover page and inside cover page hereof, this page, the schedule and appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

SALE AND DISTRIBUTION OF THE BONDS

UNDERWRITING . . . The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page 2 hereof less an Underwriter's discount of \$27,595.47. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibility to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of municipal utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market. Additionally, there are no assurances that if a secondary market for the Bonds were to develop, that it will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Bonds. There is presently no secondary market for the Bonds and no assurance that a secondary market for the Bonds will develop or, if developed, will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. See "INVESTMENT CONSIDERATIONS – Infectious Disease Outlook (COVID-19)." Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes. See "INVESTMENT CONSIDERATIONS – No Certainty of a Secondary Market."

SECURITIES LAWS . . . No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND RATING AND INSURANCE

The Bonds are expected to be rated "AA"/Stable by S&P Global Ratings ("S&P") by virtue of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Bond Insurer") at the time of delivery of the Bonds. The Bonds and the outstanding debt of the District are rated "A3" by Moody's Investors Service Inc. without regard to credit enhancement.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement including the Schedules and Appendices attached. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement (including the Schedules and Appendices).

THE DISTRICT

- THE DISTRICT**..... Paloma Lake Municipal Utility District No. 1 (the “District”), is a political subdivision of the State of Texas, created by an order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), dated August 10, 2006 and confirmed pursuant to an election held within the District on May 12, 2007. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater, and providing and operating park and recreational facilities, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended. See “THE DISTRICT – General.”

- LOCATION**..... The District, which encompasses approximately 379 acres of land, is located in northeast Williamson County and lies approximately six miles northeast of the City of Round Rock, Texas (“Round Rock”), five miles southeast of the City of Georgetown, Texas (“Georgetown”), five miles east of the Interstate Highway 35 corridor and less than two miles north of US Highway 79. The District is contained entirely within the extraterritorial jurisdiction of Round Rock and is bounded on the south and west by CR 117, on the north by CR 112 and on the east by Red Bud Lane/CR 122. See “THE DISTRICT – Location.”

- STATUS OF DEVELOPMENT** As of April 15, 2021, 100% of the developable acreage within the District has been developed with utility facilities as a part of the single-family residential development of Paloma Lake. As of April 15, 2021, the development in the District consisted of 1,064 single-family lots with 1,064 completed homes. See “THE DISTRICT – Current Status of Development.”

THE BONDS

- DESCRIPTION** The Bonds in the aggregate principal amount of \$2,580,000 mature serially in varying amounts on September 1 of each year from 2022 through 2027 and as Term Bonds maturing on September 1 in the years 2029, 2031, 2033, 2035, 2037 and 2039 as set forth on page 2 hereof. Interest accrues from the Date of Initial Delivery and is payable September 1, 2021 and each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See “THE BONDS – General Description.”

- REDEMPTION** The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2027, in whole or from time to time in part, on September 1, 2026, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Redemption.” Additionally, Term Bonds maturing on September 1 in the years 2029, 2031, 2033, 2035, 2037 and 2039 are subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption.”

- SOURCE OF PAYMENT** Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See “TAXING PROCEDURES.” **The Bonds are obligations solely of the District and are not obligations of Round Rock; Williamson County, Texas; the State of Texas; or any entity other than the District.** See “THE BONDS – Source of and Security for Payment.”

PAYMENT RECORD	The Bonds constitute the tenth installment of bonds issued by the District (fourth installment of refunding bonds). The District has made timely payment on its previously issued bonds, which consists of: Unlimited Tax Bonds, Series 2010; Unlimited Tax Bonds, Series 2012; Unlimited Tax Bonds, Series 2013; Unlimited Tax Refunding Bonds, Series 2013A; Unlimited Tax Bonds, Series 2014; Unlimited Tax Bonds, Series 2015; Unlimited Tax Bonds, Series 2016; Unlimited Tax Refunding Bonds, Series 2017; and Unlimited Tax Refunding Bonds, Series 2020 (collectively, the “Previously Issued Bonds”). See “FINANCIAL STATEMENT – Table 6 – Outstanding Bonds.”
AUTHORITY FOR ISSUANCE	The Bonds are the fourth series of unlimited tax refunding bonds issued by the District. The Bonds are issued pursuant to the terms and conditions of the Bond Order, Chapter 1207, Texas Government Code, as amended, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS – Authority for Issuance.”
USE OF PROCEEDS	Proceeds of the Bonds will be used to (i) refund a portion of the District’s outstanding Unlimited Tax Bonds, Series 2014 as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) to achieve a debt service savings and (ii) pay the costs of issuance of the Bonds.
BONDS AUTHORIZED BUT UNISSUED.....	At an election held within the District on May 12, 2007, voters within the District authorized the issuance of a total of \$39,990,000 in unlimited tax bonds for water, wastewater and drainage facilities (of which \$17,450,000 is currently unissued). The Bonds constitute the tenth installment of bonds issued by the District (fourth installment of refunding bonds). Additionally, at the election held in the District on May 12, 2007, the voters within the District approved the issuance of refunding bonds in a principal amount of \$59,985,000 to refund water, wastewater and drainage facilities bonds (of which, \$59,535,000 is currently unissued), the issuance of unlimited tax bonds in the aggregate principal amount of \$7,440,000 (all of which remains authorized but unissued) for the acquisition and construction of parks and recreational facilities and bonds in a principal amount of up to one and one-half times of the principal amount of park and recreational facilities bonds issued to refund any such park and recreational facilities bonds, all of which remains authorized but unissued (excluding any refunding authorization which may be used in connection with the issuance of the Bonds). See “FINANCIAL STATEMENT – Table 6 – Outstanding Bonds” and “THE BONDS – Issuance of Additional Debt.”
MUNICIPAL BOND RATING AND INSURANCE	The Bonds are expected to be rated “AA”/Stable by S&P Global Ratings (“S&P”) by virtue of a municipal bond insurance policy issued by Build America Mutual Assurance Company (“BAM” or the “Bond Insurer”) at the time of delivery of the Bonds. The Bonds and the outstanding debt of the District are rated “A3” by Moody’s Investors Service Inc. without regard to credit enhancement.
TAX EXEMPTION.....	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal tax purposes under existing law, subject to matters described in “TAX MATTERS.”
QUALIFIED TAX-EXEMPT OBLIGATIONS.....	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2021 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”
BOND COUNSEL	McCall, Parkhurst & Horton L.L.P., Austin, Texas
GENERAL COUNSEL.....	Armbrust & Brown, PLLC, Austin, Texas
FINANCIAL ADVISOR	Specialized Public Finance Inc., Austin, Texas

ENGINEER..... Jones-Heroy & Associates, Inc., Austin, Texas

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds involve certain investment considerations and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned "INVESTMENT CONSIDERATIONS," with respect to the investment security of the Bonds.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

SELECTED FINANCIAL INFORMATION
(Unaudited as of April 14, 2021)

2017 Certified Taxable Assessed Valuation	\$	263,649,987	(a)
2018 Certified Taxable Assessed Valuation	\$	299,055,741	(a)
2019 Certified Taxable Assessed Valuation	\$	325,813,559	(a)
2020 Certified Taxable Assessed Valuation	\$	330,968,668	(a)
2021 Preliminary Taxable Assessed Valuation.....	\$	377,134,110	(a)
Gross Debt Outstanding of the District (after issuance of the Bonds)	\$	20,390,000	(b)
Ratio of Gross Debt to 2020 Certified Taxable Assessed Valuation.....		6.16%	
Ratio of Gross Debt to 2021 Preliminary Taxable Assessed Valuation.....		5.41%	
2020 Tax Rates			
Maintenance.....	\$	0.1900	
Debt Service.....		<u>0.4200</u>	
Total 2020 Tax Rate.....	\$	0.6100	
Debt Service Fund Balance (as of April 14, 2021)	\$	2,303,465	(c)
Operating Fund Balance (as of April 14, 2021).....	\$	1,896,176	
Percentage of total tax collections – through March 31, 2021		99.19%	(d)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds (“Average Requirement”) (2021-2041).....	\$	1,295,648	(b)
Tax Rate required to pay Average Requirement based upon			
2020 Certified Taxable Assessed Valuation at 95% collections	\$	0.4121/\$100 AV	
2021 Preliminary Taxable Assessed Valuation at 95% collections.....	\$	0.3617/\$100 AV	
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds (“Maximum Requirement”) (2037)			
	\$	1,430,369	(b)
Tax Rate required to pay Maximum Requirement based upon			
2020 Certified Taxable Assessed Valuation at 95% collections	\$	0.4550 /\$100 AV	
2021 Preliminary Taxable Assessed Valuation at 95% collections.....	\$	0.3993 /\$100 AV	
Number of homes and lots as of April 15, 2021:			
Completed Homes (Occupied).....		1,064	
Homes Under Construction.....		0	
Vacant Lots		0	
Estimated Population as of April 15, 2021.....		3,724	(e)

- (a) Certified Taxable Assessed Valuations of the District as of January 1 as certified by the Williamson Central Appraisal District (“WCAD”). See “TAXING PROCEDURES.”
- (b) Includes the Bonds and excludes the Refunded Bonds.
- (c) Unaudited as of April 14, 2021. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the District’s Debt Service Fund.
- (d) See “TAX DATA – Table 9 – Tax Collections.”
- (e) Based upon 3.5 residents per completed and occupied single-family home.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

OFFICIAL STATEMENT
relating to
\$2,580,000
PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Paloma Lake Municipal Utility District No. 1 (the “District”), a political subdivision of the State of Texas (the “State”), of its \$2,580,000 Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”).

The Bonds will be issued pursuant to an order adopted by the Board of Directors of the District on May 12, 2021, and a pricing certificate executed by the pricing officer as designated in the order (the order and the pricing certificate are collectively referred to herein as the “Bond Order”), the Constitution and general laws of the State of Texas (the “State”) including Article XVI, Section 59 of the Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended, and the bond election held within the District on May 12, 2007.

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas, 78701 or from the District’s Financial Advisor, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See “CONTINUING DISCLOSURE OF INFORMATION” and “OFFICIAL STATEMENT – Updating Official Statement During Underwriting Period” for a description of the District undertaking to provide certain information on a continuing basis.

PLAN OF FINANCING

PURPOSE . . . Proceeds of the Bonds will be used to (i) refund a portion of the District’s outstanding Unlimited Tax Bonds, Series 2014 as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) to achieve a debt service savings and (ii) pay the costs of issuance of the Bonds.

REFUNDED BONDS . . . The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds to be deposited pursuant to a certain Escrow Agreement (the “Escrow Agreement”) between the District and BOKF, NA, Dallas, Texas (the “Escrow Agent”). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with other funds of the District, the District will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable. Specialized Public Finance Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency (such certification, the “Sufficiency Certificate”) of the amount initially deposited to the Escrow Fund, without regard to investment, to pay the principal and interest on the Refunded Bonds, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

SOURCES AND USES OF FUNDS . . . The proceeds from the sale of the Bonds, along with other lawfully available funds of the District, will be applied approximately as follows:

SOURCES OF FUNDS:

Par Amount of Bonds	\$ 2,580,000.00
Net Original Issue Premium	32,211.75
District Contribution	35,000.00
Total Sources of Funds	<u>\$ 2,647,211.75</u>

USES OF FUNDS:

Escrow Deposit	\$ 2,507,662.50
Costs of Issuance (including bond insurance premium)	108,609.84
Underwriter's Discount	27,595.47
Deposit to Debt Service Fund	3,343.94
Total Uses of Funds	<u>\$ 2,647,211.75</u>

THE BONDS

GENERAL DESCRIPTION . . . The Bonds will bear interest from the Date of Initial Delivery and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will accrue from the Date of Initial Delivery and will be paid on September 1, 2021 and each March 1 and September 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Dallas, Texas (the “Paying Agent” or “Paying Agent/Registrar”).

REDEMPTION . . . The Bonds maturing on and after September 1, 2027 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2026, or on any date thereafter, in integral multiples of \$5,000, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

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

MANDATORY SINKING FUND REDEMPTION . . . The Bonds maturing on September 1 in the years 2029, 2031, 2033, 2035, 2037 and 2039 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to their stated maturity in the following amounts, on the following dates and at a price of par to the date of redemption by lot:

<u>Term Bonds Due September 1, 2029</u>		<u>Term Bonds Due September 1, 2031</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2028	\$ 160,000	September 1, 2030	\$ 150,000
September 1, 2029*	150,000	September 1, 2031*	140,000

<u>Term Bonds Due September 1, 2033</u>		<u>Term Bonds Due September 1, 2035</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2032	\$ 150,000	September 1, 2034	\$ 125,000
September 1, 2033*	125,000	September 1, 2035*	150,000

*Stated Maturity.

Term Bonds Due September 1, 2037		Term Bonds Due September 1, 2039	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
September 1, 2036	\$ 95,000	September 1, 2038	\$ 185,000
September 1, 2037*	270,000	September 1, 2039*	190,000

*Stated Maturity.

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

Notice of Redemption . . . At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed; the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot or other customary random method.

SELECTION OF BONDS FOR REDEMPTION . . . With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

If less than all of the Bonds are called for redemption, the particular Bonds, or portions thereof, to be redeemed shall be selected and designated by the District, and if less than all of a maturity, or sinking fund installment in the case of Term Bonds, is to be redeemed, the Paying Agent/Registrar shall determine by lot or other customary random method the Bonds, or portions thereof within such maturity to be redeemed (provided that a portion of a Bond may be redeemed only in integral multiples of \$5,000 principal amount); provided, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity, or sinking fund installment in the case of Term Bonds, and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity, such interest rate and such sinking fund installment in the case of the Term Bonds shall be selected in accordance with the arrangements between the District and the securities depository.

DTC REDEMPTION PROVISION . . . The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC.

In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to the DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . The District is initially utilizing the book-entry-only system of DTC (“Book-Entry-Only-System”). See “BOOK-ENTRY-ONLY SYSTEM.” In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

Payment . . . Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Dallas, Texas (the "Designated Payment/Transfer Office"). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first-class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

Registration . . . If the Book-Entry-Only System is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount or maturity amount, as the case may, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the registered owner or his duly authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent. Transfer and exchange of Bonds will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent or by United States mail, first-class, postage prepaid. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer in the denominations of \$5,000 or any integral multiple thereof.

Limitation on Transfer of Bonds . . . Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth (15th) (whether or not a business day) calendar day of the month preceding each interest payment date (the "Record Date") and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds . . . If a Bond is mutilated, the Paying Agent will provide a replacement Bond in exchange for the mutilated bond. If a Bond is destroyed, lost or stolen, the Paying Agent will provide a replacement Bond upon (i) the filing by the registered owner with the Paying Agent of evidence satisfactory to the Paying Agent of the destruction, loss or theft of the Bond and the authenticity of the registered owner's ownership and (ii) the furnishing to the Paying Agent of indemnification in an amount satisfactory to hold the District and the Paying Agent harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond must be borne by the registered owner. The provisions of the Bond Order relating to the replacement Bonds are exclusive and to the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

AUTHORITY FOR ISSUANCE . . . At an election held within the District on May 12, 2007, voters within the District authorized the issuance of a total of \$39,990,000 in unlimited tax bonds for water, wastewater and drainage facilities (of which \$17,450,000 is currently unissued). The Bonds constitute the tenth installment of bonds issued by the District (fourth installment of refunding bonds). Additionally, at the election held in the District on May 12, 2007, the voters within the District approved the issuance of refunding bonds in a principal amount of \$59,985,000 to refund water, wastewater and drainage facilities bonds (of which \$59,535,000 is currently unissued), the issuance of unlimited tax bonds in the aggregate principal amount of \$7,440,000 for the acquisition and construction of parks and recreational facilities and bonds in a principal amount of up to one and one-half times of the principal amount of park and recreational facilities bonds issued to refund any such park and recreational facilities bonds, all of which remains authorized but unissued (excluding any refunding authorization which may be used in connection with the issuance of the Bonds). The Bonds are issued pursuant to the terms and provisions of the Bond Order; Chapter 1207, Texas Government Code, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution.

SOURCE OF AND SECURITY FOR PAYMENT . . . The Bonds will be payable from and secured by a pledge of 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. The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against all taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination

of the pledge of taxes when and if the Round Rock annexes and dissolves the District and assumes all debts and liabilities of the District.

The District lies entirely within the extraterritorial district of Round Rock. Under prior Texas law, a municipality could annex and dissolve a municipal utility district located within its extraterritorial jurisdiction without the consent of the District or its residents; however, annexation requirements have changed for certain municipalities. See “THE BONDS – Annexation.”

The Bonds are obligations solely of the District and are not obligations of Round Rock; Williamson County, Texas; the State of Texas; or any political subdivision or entity other than the District.

PAYMENT RECORD . . . The Bonds constitute the tenth installment of bonds issued by the District (fourth installment of refunding bonds). The District has previously issued \$2,250,000 Unlimited Tax Bonds, Series 2010; \$2,310,000 Unlimited Tax Bonds, Series 2012; \$1,700,000 Unlimited Tax Bonds, Series 2013; \$2,460,000 Unlimited Tax Refunding Bonds, Series 2013A; \$3,000,000 Unlimited Tax Bonds, Series 2014; \$8,000,000 Unlimited Tax Bonds, Series 2015; \$5,280,000 Unlimited Tax Bonds, Series 2016; \$2,125,000 Unlimited Tax Refunding Bonds, Series 2017; and \$3,560,000 Unlimited Tax Refunding Bonds, Series 2020 (collectively, the “Previously Issued Bonds”). The District has not defaulted on the payment of principal of or interest on the Previously Issued Bonds. See “FINANCIAL STATEMENT – Outstanding Bonds.”

FLOW OF FUNDS . . . The Bond Order creates or confirms the creation by the District of a Debt Service Fund and an Escrow Fund. Each fund shall be kept separate and apart from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds. Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

DEBT SERVICE FUND . . . The Bond Order establishes the Debt Service Fund to be used to pay principal and interest on and Paying Agent fees in respect to the Bonds. The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the Underwriter, the amount received from proceeds of the Bonds representing accrued interest on the Bonds, if any, (ii) District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to the Paying Agent when due.

ESCROW FUND . . . The Refunded Bonds and the interest due thereon will be paid on the redemption date from funds on deposit with the Escrow Agent and held in a separate Escrow Fund. See “PLAN OF FINANCING – Refunded Bonds.”

PAYING AGENT/REGISTRAR . . . Principal of and semiannual interest on the Bonds will be paid by BOKF, NA having an office for payment in Dallas, Texas, the Paying Agent. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent’s records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar will be sent by the District or the successor paying agent/registrar to each registered owner by first-class mail, postage prepaid.

DEFEASANCE OF OUTSTANDING BONDS . . . General . . . The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a “Defeased Bond”), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order.

Any money so deposited with or made available to the Paying Agent or an eligible trust company or commercial bank also may be invested at the written direction of the District in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the District or deposited as directed in writing by the District.

Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

Any such obligations must be certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to provide all debt service payments on the Bonds.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made without amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Securities will be maintained at any particular rating category.

Retention of Rights . . . To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call the Defeased Bond for redemption in accordance with the provisions of the order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

Investments . . . Any escrow agreement or other instrument entered into between the District and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the District or deposited as directed in writing by the District.

RECORD DATE . . . The Record Date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the fifteenth (15th) calendar day of the month (whether or not a business day) preceding such interest payment date.

ISSUANCE OF ADDITIONAL DEBT . . . The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. On May 12, 2007, voters within the District authorized the issuance of unlimited tax bonds in the principal amount of \$39,990,000 for the purpose of providing water, wastewater, and drainage facilities to meet the needs of the residents and customers of the District (of which \$17,450,000 is currently unissued). See "FINANCIAL STATEMENT – Authorized But Unissued Bonds." Additionally, at the election held in the District on May 12, 2007, the voters within the District approved the issuance of refunding bonds in a principal amount of \$59,985,000 to refund water, wastewater and drainage facilities bonds (of which \$59,535,000 is currently unissued), the issuance of unlimited tax bonds in the aggregate principal amount of \$7,440,000 for the acquisition and construction of parks and recreational facilities and bonds in a principal amount of up to one and one-half times of the principal amount of park and recreational facilities bonds issued to refund any such park and recreational facilities bonds, all of which remain (excluding any refunding authorization which may be used in connection with the issuance of the Bonds) authorized but unissued except for \$450,000 of refunding bond water, sewer and drainage authorization which was utilized in connection with the District's Unlimited Tax Refunding Bonds, Series 2013A, Unlimited Tax Refunding Bonds, Series 2017, and Unlimited Tax Refunding Bonds, Series 2020. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the

Bonds, however, no additional bonds (other than refunding bonds) are expected to be issued by the District at this time. See “INVESTMENT CONSIDERATIONS.”

In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue refunding bonds, as well as revenue bonds and notes without voter approval. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a municipal utility 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.” Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes or other obligations issued by a municipal utility district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See “MUNICIPAL BOND RATING AND INSURANCE.”

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations, or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the acceptability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

SPECIFIC TAX COVENANTS . . . In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may omit to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the “Code”), so that such covenant is ineffective or inapplicable or noncompliance with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

ADDITIONAL COVENANTS . . . The District has additionally covenanted in the Bond Order that it will keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the District.

REMEDIES IN EVENT OF DEFAULT . . . The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, which failure materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the default continues for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance and the District’s obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. 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. The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson I*”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“*Wasson II*”), and together with *Wasson I*, “*Wasson*”), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State,

and do not implicate the state's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be 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 the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

CONSOLIDATION . . . A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater system with the water and wastewater system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water and wastewater system with that of any other district.

ANNEXATION . . . Under prior Texas law, a municipality could annex and dissolve a municipal utility district located within its extraterritorial jurisdiction without consent of the district or its residents. Under House Bill 347 approved during the 86th Regular Legislative Session ("HB 347"), (a) a municipality may annex a district with a population of less than 200 residents only if: (i) the municipality obtains consent to annex the area through a petition signed by more than 50% of the registered voters of the district, 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 landowners consenting to the annexation, and (b) a municipality may annex a district with a population of 200 residents or more 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 landowners consenting to the annexation. Notwithstanding the foregoing, a municipality may annex an area if each owner of land in the area requests the annexation. The described election and petition process does not apply, however, during the term of a strategic partnership agreement between a municipality and a district specifying the procedures for annexation of all or a portion of the District.

If a municipal utility district is annexed, the municipality must assume the assets, functions, and obligations of the District, including outstanding bonds, and the pledge of taxes will terminate. No representation is made concerning the likelihood of annexation and dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

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

ALTERATION OF BOUNDARIES . . . In certain circumstances, under Texas law the District may alter its boundaries to: i) upon satisfying certain conditions, annex additional territory; and ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied, including the District's simultaneous annexation of land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District will effect any change in its boundaries.

APPROVAL OF THE BONDS . . . The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

AMENDMENTS TO THE BOND ORDER . . . The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest therein, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to

any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may within the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

BOND INSURANCE

BOND INSURANCE POLICY . . . Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM” or “Bond Insurer”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX C 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 March 31, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$477.7 million, \$156.4 million and \$321.3 million, respectively.

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

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

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “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 www.buildamerica.com/videos. (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 www.buildamerica.com/credit-profiles. 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.

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

The District cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (ii) 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 (iii) 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.

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit

of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, 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 this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Financial Advisor take any responsibility for the accuracy thereof.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

INVESTMENT CONSIDERATIONS

GENERAL . . . The Bonds, which are obligations of the District and are not obligations of Round Rock; Williamson County, Texas; the State of Texas; or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See “THE BONDS – Source of and Security for Payment.”

The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property or, in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will occur or that the development in the District will maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See “INVESTMENT CONSIDERATIONS – Registered Owners’ Remedies.”

INFECTIOUS DISEASE OUTLOOK (COVID-19) . . . The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and 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 and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. 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 the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. However, on March 2, 2021, the Governor issued Executive Order GA-34, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 took effect on March 10, 2021. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and may continue negatively affecting economic growth and financial markets worldwide and within Texas. While any 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 or rating by impacting property tax values and the collection of ad valorem taxes. See “INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments.”

NO CERTAINTY OF A SECONDARY MARKET . . . Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Bonds. There is presently no secondary market for the Bonds and no assurance that a secondary market for the Bonds will develop or, if developed, will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS . . . *Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:* A substantial percentage of the taxable value of the District results from the current market value of single-family residences. The market value of such homes is related to general economic conditions affecting the demand for and taxable value of residences. Demand for residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers toward which the marketing of residential dwellings is directed.

IMPACT ON DISTRICT TAX RATES . . . Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2020 Certified Taxable Assessed Valuation is \$330,968,668 (see “FINANCIAL STATEMENT”). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$1,430,369 (2037) and the Average Annual Debt Service Requirement will be \$1,295,648 (2021-2041). Based on the 2020 Certified Taxable Assessed Valuation, a tax rate of \$0.4550/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement, and a tax rate of \$0.4121/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. The 2021 Preliminary Taxable Assessed Valuation is \$377,134,110. Based on the 2021 Preliminary Taxable Assessed Valuation, a tax rate of \$0.3993/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt

Service Requirement, and a tax rate of \$0.3617/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. See “DEBT SERVICE SCHEDULE” and “TAX DATA – Tax Adequacy for Debt Service.”

TAX COLLECTIONS AND FORECLOSURE REMEDIES . . . The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Additionally, the District’s tax lien is on a parity with the liens of all other State and local taxing authorities on the property against which the taxes are levied. Registered owners of the Bonds are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, registered owners to enforce such remedies. The rights and remedies of the registered owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors’ rights generally.

REGISTERED OWNERS’ REMEDIES . . . In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest 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 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. The enforceability of the rights and remedies of the registered owners may further 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.

BANKRUPTCY LIMITATION TO REGISTERED OWNERS’ RIGHTS . . . The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of State law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners’ remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismissed the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (i) is specifically authorized to file for federal bankruptcy protection by applicable state law, (ii) is insolvent or unable to meet its debts as they mature, (iii) desires to effect a plan to adjust such debts, and (iv) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under State law a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under Federal bankruptcy law only if such district has fully exercised its rights and powers under State law and remains unable to meet its debts and other obligations as they mature.

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

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

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

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

FUTURE DEBT . . . The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes, the District’s voters. On May 12, 2007, voters within the District authorized the issuance of unlimited tax bonds in the principal amounts of \$39,990,000 for the purpose of providing water, wastewater, and drainage facilities to meet the needs of the residents and customers of the District. See “FINANCIAL STATEMENT – Authorized But Unissued Bonds.” Additionally, at the election held in the District on May 12, 2007, the voters within the District approved the issuance of refunding bonds in a principal amount of \$59,985,000 of which \$59,535,000 remains authorized but unissued, bonds for the acquisition and construction of parks and recreational facilities in the principal amount of \$7,440,000 (all of which remains authorized but unissued), and bonds in a principal amount of up to one and one-half times of the principal amount of park and recreational facilities bonds issued to refund any such park and recreational facilities bonds, all of which remain authorized.

As of April 15, 2021, 100% of the developable acreage within the District has been developed with utility facilities representing 100% of the District’s developable acreage. All of the remaining authorized but unissued bonds approved by the voters of the District may be issued from time to time for qualified purposes, as determined by the Board, subject to the approval by the Attorney General of the State of Texas and the TCEQ. See “THE BONDS – Issuance of Additional Debt.”

The District has reserved in the Bond Order the right to issue the remaining \$17,450,000 in authorized but unissued water, wastewater and drainage facilities bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$17,450,000 water, wastewater and drainage facilities bonds, as well as the remaining \$59,535,000 in refunding bonds to refund water, wastewater and drainage bonds, which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. See “THE SYSTEM.”

The District anticipates that it will not need to issue the full principal amount of authorized but unissued bonds for water, wastewater and drainage facilities (\$17,450,000). The issuance of additional bonds is subject to approval by the Commission pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS – Issuance of Additional Debt.”

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

ENVIRONMENTAL REGULATION . . . Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

1. Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
2. Restricting the manner in which wastes are released into the air, water, or soils;
3. Restricting or regulating the use of wetlands or other property;
4. Requiring remedial action to prevent or mitigate pollution;
5. Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water 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 as to future compliance of and the ability to operate the District’s water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area’s ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Water Supply & Discharge Issues . . . Water supply and discharge regulations that the District may be required to comply with involve: (1) public water supply systems, (2) wastewater discharges from treatment facilities, (3) storm water discharges and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the Safe Drinking Water Act, potable (drinking) water provided by the District to more than sixty (60) end users for consumption will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as arsenic, lead, radon, and disinfection by-products (e.g. chlorine). Additionally, TCEQ is initiating rule changes to Chapter 290, Public Drinking Water, to implement the federal Stage 2 Disinfection Byproducts Rule (DBP2), Long Term Stage 2 Enhanced Surface Water Treatment Rule (LT2), and Ground Water Rule (GWR). EPA adopted the GWR on October 11, 2006. Future regulations or requirements pertaining to these and other drinking water contaminants could require installation of more costly treatment facilities.

Operation of the District's sewer facilities is subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies.

Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and proposed two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

Operations of the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

DROUGHT CONDITIONS . . . Central Texas, like other areas of the State, has experienced drought conditions from time to time. The District has adopted a water conservation plan. Round Rock provides water to the District in amounts sufficient to service the residents of the District, however, if drought conditions resume, water usage and rates could be impacted.

Atlas 14 Study. The National Weather Service recently completed a rainfall study known as Atlas 14 which shows that severe rainfall events are now occurring more frequently. Within Texas, the Atlas 14 study showed an increased number of rainfall events in a band extending from the upper Gulf Coast in the east and running west generally along the I-10 corridor to Central Texas. Based on this study, various governmental entities, including Williamson County, are contemplating amendments to their regulations that will potentially increase the size of the 100 year floodplain and will also increase the size of detention ponds and drainage facilities required for future construction in all areas (not just in the floodplain).

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 become due, any owner of the Bonds shall have a claim under the Policy for such payments. However, in the event of any earlier due date of such principal by reason of mandatory or optional redemption, 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 redemption. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Bonds which is recovered by the District from the owner as a voidable preference under applicable bankruptcy law is covered

by the insurance policy, however, such payments will be made from BAM at such time and in such amounts as would have been due absent such redemption by the District unless BAM 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 BAM without appropriate consent. BAM may direct and must consent to any remedies that the Paying Agent exercises and BAM's consent may be required in connection with amendments to the Bond Order.

In the event BAM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received by the Paying Agent pursuant to the Bond Order.

In the event BAM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market prices of the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of BAM and its ability to pay claims which is predicated upon a number of factors that could change over time. No assurance is given that the long-term ratings on BAM and of the ratings on the Bonds insured by BAM will not be subject to downgrade and such event could adversely affect the market price of the Bonds.

The obligations of BAM are general obligations of BAM and in an event of default by BAM, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency. No independent investigation into the ability of BAM to pay claims has been made and no assurance or representation regarding the financial strength or projected financial strength of BAM is given.

Neither the District or Underwriter have made independent investigations 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 RATING AND INSURANCE" for further instructions for obtaining current financial information concerning the Bond Insurer.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

THE DISTRICT

GENERAL . . . The District, a political subdivision of the State of Texas, was created by order of the TCEQ dated August 10, 2006, and operates pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and collect and treat wastewater. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water and the operation of park and recreational facilities. Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code, certain districts, such as the District, may issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of water, wastewater, drainage, park and recreational facilities. The District may also establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ. The District as created contained approximately 379 acres. On March 5, 2007, approximately 1.80 acres were excluded and on August 15, 2007, approximately 1.34 acres were annexed, bringing the total acreage of the District to approximately 379 acres. Fire protection and emergency services are provided to the land within the District by Williamson County Emergency Services District No. 9.

MANAGEMENT . . . *Board of Directors.* The District is governed by a Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the first Tuesday in November in each even numbered year. All of the directors reside or own property in the District.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dallas Kelley-Kerr	President	2022
Nancy McDonald Siefken	Vice President	2024
James E. Alty, Jr.	Secretary	2022
Ronnie "Ron" Neal Hobbs	Assistant Secretary	2022
Robert "Neil" Scanlon	Assistant Secretary	2024

CONSULTANTS . . . *Tax Assessor/Collector.* Land and improvements in the District are being appraised by the Williamson Central Appraisal District ("WCAD"). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Williamson County Tax Assessor/Collector, Mr. Larry Gaddes, currently serves the District in this capacity under contract.

General Manager/Operator. The District contracts with Crossroads Utility Services LLC ("Crossroads") to serve as Operator for the District. Crossroads serves in a similar capacity for 28 other special districts in the Austin metropolitan area.

Bookkeeper. Bott & Douthitt, PLLC ("B&D") is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 53 other special districts.

Engineer. The District's consulting engineer is Jones-Heroy & Associates, Inc. (the "Engineer"). Such firm serves as consulting engineer to 25 other special districts.

Financial Advisor. Specialized Public Finance Inc. serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Bond Counsel. The District has engaged McCall, Parkhurst & Horton L.L.P., Austin, Texas as Bond Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds.

General Counsel. The District has engaged Armbrust & Brown, PLLC ("A&B") as general counsel. Fees paid to A&B for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

LOCATION . . . The District, which encompasses approximately 379 acres of land, is located in northeast Williamson County and lies approximately six miles northeast of downtown Round Rock, five miles southeast of Georgetown, five miles east of the Interstate Highway 35 corridor and less than two miles north of US Highway 79. The District is contained entirely within the extraterritorial jurisdiction of Round Rock and is bounded on the south and west by CR 117, on the north by CR 112 and on the east by Red Bud Lane/CR 122.

CURRENT STATUS OF DEVELOPMENT . . . In September 2005, February 2006, and February 2007, respectively, Paloma Lake Development, Inc. ("Paloma Lake Development"), purchased three tracts of land totaling approximately 471 acres, including approximately 286 acres within the District, along with approximately 185 acres of land within Paloma Lake Municipal Utility District No. 2, located adjacent to the District. In December 2012, an additional 92.18 acres located within the District was purchased by North Paloma Lake Development, Inc. ("North Paloma Lake Development").

Paloma Lake Development and North Paloma Lake Development are each Texas corporations of which Blake Magee is the president.

All water, wastewater and drainage, roads and other utility facilities within the District are fully developed. As of April 15, 2021, the development in the District consisted of 1,064 single-family lots with utility facilities, 1,064 completed homes, 0 homes under construction, and 0 vacant single-family lots. Additionally, the District contains an amenity center consisting of a pavilion, a pool, and an approximately 1,000 square foot meeting room and related facilities, as well as an elementary school.

The chart below reflects the status of development as of April 15, 2021:

	Net Acreage	Platted Lots	Single Family		
			Completed Homes	Homes Under Construction	Vacant Lots
A. Sections Developed or Being Developed with Utility Facilities					
All Sections	266.44	1,064	1,064	0	0
Under Construction Sections: N/A	0	-	-	0	0
Total Developed with Utilities or Under Construction	<u>266.439</u>	<u>1,064</u>	<u>1,064</u>	<u>0</u>	<u>0</u>
B. Other Acreage Developed with Utility Facilities					
Round Rock ISD Elementary School Site & Amenity Center	17.14				
Total Other Acreage Developed with Utility Facilities	<u>17.14</u>				
Total Developed or Being Developed	<u>283.579</u>	<u>1,064</u>	<u>1,064</u>	<u>0</u>	<u>0</u>
C. Total Remaining Undeveloped but Developable Acreage	0.00				
D. Total Developable Acreage	283.579				
E. Undevelopable Acreage	<u>95</u>				
Total	<u>378.579</u>				

FUTURE DEVELOPMENT . . . The District is fully developed.

ANNEXATION OF THE DISTRICT . . . The District lies within the extraterritorial jurisdiction of Round Rock. See “THE BONDS – Annexation” for a discussion of the ability of Round Rock to annex the District.

CONSENT AGREEMENT WITH ROUND ROCK . . . Effective September 22, 2005, Round Rock and Blake Magee Investments, L.P. (“BMI”), the predecessor to Paloma Lake Development, entered into a Consent Agreement under the terms of which Round Rock consented to the creation of the District and Paloma Lake Municipal Utility District No. 2 (“Paloma Lake MUD No. 2”). The Consent Agreement also includes terms regarding BMI’s cost participation in and Round Rock’s reservation of capacity for the District and Paloma Lake MUD No. 2 in the McNutt Interceptor Project, a Round Rock wastewater interceptor project which has been constructed to transport wastewater from the McNutt drainage basin, which includes the District and Paloma Lake MUD No. 2, to the Brushy Creek Regional Wastewater Treatment Plant and certain off-site water facilities to serve the land within the District and Paloma Lake MUD No. 2; the development of the land within the District and Paloma Lake MUD No. 2 and Round Rock’s provision of wholesale water and wastewater service to the District and Paloma Lake MUD No. 2. The Consent Agreement also confirms Round Rock’s approval of the concept plan for the development of the land in the District and Paloma Lake MUD No. 2 and provides for BMI’s construction of certain roadway improvements required by Round Rock. Under the Consent Agreement, Round Rock agreed that it would not annex the District until (i) water, wastewater and drainage facilities have been completed to serve at least 90% of the developable acreage within the District and (ii) (a) the Developers have been reimbursed by the District for those facilities in accordance with the rules of the TCEQ or (b) Round Rock has agreed to assume the obligation to reimburse the Developers under those rules.

Concurrently with the execution of the Consent Agreement, BMI assigned all of its rights, duties and obligations under the Consent Agreement to Paloma Lake Development, and Round Rock consented to the assignment by “Assignment of Consent Agreement for Paloma Lake Municipal Utility District No. 1 and Paloma Lake Municipal Utility District No. 2 and Consent to Assignment” dated effective September 22, 2005. Effective May 31, 2007, Round Rock and Paloma Lake Development entered into “Amendment No. 1 to Consent Agreement”, under which, among other things, Round Rock and Paloma Lake Development agreed to certain modifications to Paloma Lake Development’s cost participation obligations and Round Rock consented to the District’s annexation of the 1.339 acre tract which was subsequently annexed by the District on August 15, 2007. Effective April 19, 2010, Round Rock and Paloma Lake Development entered into “Amendment No. 2 to Consent Agreement” which, among other things, modified provision related to certain water facilities to be constructed by Round Rock and provided for a credit against Round Rock’s impact fee for certain costs paid by Paloma Lake Development relating to the McNutt Interceptor.

By Assignment of Capacity and Capacity Rights dated October 8, 2008, Paloma Lake Development assigned its rights to capacity in certain facilities constructed under the Consent Agreement required to serve the District and Paloma Lake MUD No. 2 to each of the districts.

THE SYSTEM

REGULATION . . . The water, wastewater and storm drainage facilities, the purchase, acquisition and construction of which have been permanently financed by the District with proceeds of bonds previously issued by the District, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ, Williamson County and Round Rock. According to Jones-Heroy & Associates, Inc. (the “Engineer”), the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the District’s waterworks and wastewater facilities is subject to regulation by, among others, the TCEQ.

WATER SUPPLY AND DISTRIBUTION . . . The District receives its potable water supply from Round Rock pursuant to a water supply contract dated September 13, 2007 between the District and Round Rock, entitled “Paloma Lake Municipal Utility District No. 1 Wholesale Water and Wastewater Agreement” (the “Round Rock Agreement”). Under the Round Rock Agreement, Round Rock has agreed to provide water from Round Rock’s surface water plant, which has a capacity of 52 MGD.

Pursuant to the Round Rock Agreement, Round Rock is contractually obligated to provide water at a minimum pressure of 35 pounds per square inch at each customer meter and a minimum flow rate of 0.6 gallons per minute per living-unit-equivalent (“LUE”). Pursuant to the Round Rock Agreement, the District collects water impact fees for each connection and remits them to Round Rock. These fees are paid by homebuilders and are not intended to be reimbursed by the District.

The District owns and operates the water distribution system within its boundaries. Round Rock has, pursuant to the Round Rock Agreement, agreed that the District will be the exclusive retail water provider within its boundaries. The District has one 12-inch interconnect with Paloma Lake MUD No. 2.

Pursuant to the Consent Agreement, Round Rock constructed 36-inch and 24-inch offsite water lines to serve the District and Paloma Lake MUD No. 2. The 36-inch transmission line extends from FM 1460 eastwards along CR 117, then southward along CR 117 along the western boundary of the District, then eastwards along CR 117 to the District Master Meter at Red Bud Lane. The 24-inch water line extends eastward along CR 112 ending at CR 110.

On October 8, 2008, Paloma Lake Development assigned capacity rights in the offsite water lines to the District and Paloma Lake MUD No. 2 based on the projected ultimate build-out within the District and Paloma Lake MUD No. 2.

WASTEWATER COLLECTION AND TREATMENT . . . Round Rock provides wholesale wastewater collection and treatment services to the District pursuant to the Round Rock Agreement. Round Rock collects wastewater from the District through the McNutt Wastewater Interceptor pursuant to the Round Rock Agreement. Per the Round Rock Agreement, Round Rock has assigned 1,120 LUEs of wastewater collection and treatment capacity for the District.

Under the Round Rock Agreement, the District collects wastewater impact fees for all new connections and remits them to Round Rock. These fees are paid by homebuilders and are not intended to be reimbursed by the District. By “Amendment No. 1 to Wholesale Water and Wastewater Agreement” dated September 22, 2011, the Round Rock Agreement was amended to provide for winter wastewater averaging for billing purposes.

Round Rock obtains wastewater treatment service through the Brushy Creek Regional Wastewater Treatment Facility (“BCRWTF”). The BCRWTF operates under TPDES Permit #WQ0010264002 and has a treatment capacity of 21.5 MGD.

The District owns and operates the wastewater collection system within its boundaries.

Pursuant to the Consent Agreement, Round Rock agreed to construct the McNutt Interceptor Segment A to serve the District and Paloma Lake MUD No. 2. Paloma Lake Development agreed to pay for 2,000 LUE’s of capacity in Segments A and B on behalf of the District and Paloma Lake MUD No. 2. Segments A and B are complete, and the District purchased its share of capacity in those line segments with the proceeds of previously issued bonds. Segment A extends from the BCRWTF to McNutt Interceptor Segment B, which serves the District and Paloma Lake MUD No. 2.

On October 8, 2008, Paloma Lake Development assigned capacity rights in McNutt wastewater lines to the District and Paloma Lake MUD No. 2 based on the projected ultimate build-out within the District and Paloma Lake MUD No. 2.

ROUND ROCK RATE CHALLENGE/RATE MATTERS . . . In 2018, the District, Paloma Lake MUD No. 2, Vista Oaks Municipal Utility District, Williamson County Municipal Utility District No. 10, and Williamson County Municipal Utility District No. 11 (collectively, the “Participating Districts”) filed a petition with the Public Utility Commission (the “PUC”) appealing the rates charged by Round Rock to the Participating Districts for wholesale water and wastewater services. The petition alleged that Round Rock’s rates are in excess of the cost of services being provided and in violation of Texas law.

The PUC referred this matter to the State Office of Administrative Hearings (“SOAH”) in November 2018. SOAH will conduct a cost of service hearing on the rates in mid to late 2021. The Participating Districts expect a final decision from the PUC Commissioner in late 2021 or early 2022. The Participating Districts are currently represented by The Carlton Law Firm, P.L.L.C.

Armbrust & Brown, PLLC is assisting The Carlton Law Firm, P.L.L.C. and the District in efforts to amicably resolve this matter. If the rate challenge is not settled or otherwise successfully resolved, the District may be required to pay higher wholesale rates, which would, in turn, likely result in higher retail rates to the District’s customers.

100-YEAR FLOOD PLAIN AND STORM DRAINAGE INFORMATION . . . “Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (“FEMA”) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. According to the Engineer, approximately 50 acres within the District are currently located in the 100-year floodplain as shown in the Federal Emergency Management Agency Flood Insurance Rate Map dated September 26, 2008 for Williamson County. See “THE DISTRICT – Land Use” and “INVESTMENT CONSIDERATIONS – Environmental Regulations – Atlas 14 Study.” No portion of the District that is developed is within the floodplain.

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States (“Atlas 14”) which shows that severe rainfall events are now occurring more frequently. Within Texas, the Atlas 14 study showed an increased number of rainfall events in a band extending from the upper Gulf Coast in the east and running west generally along the I-10 corridor to Central Texas. In particular the study shows that Central Texas is more likely to experience larger storms than previously thought. Based on this study, various governmental entities, including Williamson County, are contemplating amendments to their regulations that will potentially increase the size of the 100 year floodplain which interim floodplain is based on the current 500-year floodplain, resulting in the interim floodplain regulations applying to a larger number of properties, and potentially increasing the size of detention ponds and drainage facilities required for future construction in all areas (not just in the floodplain). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on the higher statistical rainfall amount, and could result in less developable property within the District, higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

TABLE 1 – WATER, WASTEWATER AND DRAINAGE OPERATIONS RATE AND FEE SCHEDULE . . . The Board of Directors of the District establishes rates and fees for water and sewer service. The following schedule sets forth the rates and fees for the District’s water and sewer service, effective as of November 9, 2016.

Monthly Base Charge – Water and Wastewater

5/8” and 3/4” meter \$ 39.50

Water Usage Charge

<u>Gallons</u>	
0-10,000 Gallons	\$ 4.25 (per 1,000 gallons)
10,001-30,000 Gallons	\$ 4.75 (per 1,000 gallons)
30,001 and Above	\$ 5.50 (per 1,000 gallons)

Wastewater Usage Charge

Based on winter average \$ 4.20 (per 1,000 gallons)

The District also charges the following security deposit, water tap fees and sewer tap fees:

Security Deposit

<u>Meter Size</u>	<u>Fee</u>
5/8” and 3/4” - Owners	\$ 100.00
5/8” and 3/4” – Renters	\$ 150.00

Water Tap Fee

<u>Meter Size</u>	<u>Fee</u>
All Meters	\$ 600.00 (per living unit equivalent)

Sewer Tap Fee

<u>Meter Type</u>	<u>Fee</u>
All Meters	\$ 450.00 (per living unit equivalent)

FINANCIAL STATEMENT

TABLE 2 – OPERATING REVENUES AND EXPENSES STATEMENT . . . The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District’s financial statements and records. Reference is made to such statements for further and more complete information. Also see “APPENDIX A – Audited Financial Statements.”

	Fiscal Years Ended September 30,				
	2020	2019	2018	2017	2016
Revenues:					
Service Revenues & Penalties	\$ 1,410,491	\$ 1,295,860	\$ 1,317,341	\$ 1,175,907	\$ 918,515
Tap Fees & Inspections	40,450	46,575	121,500	143,100	200,975
Property Taxes & Penalties	624,064	540,765	934,647	862,811	667,716
Interest & Other	10,942	84,414	52,714	37,897	33,822
Total Revenues	<u>\$ 2,085,947</u>	<u>\$ 1,967,614</u>	<u>\$ 2,426,202</u>	<u>\$ 2,219,715</u>	<u>\$ 1,821,028</u>
Expenditures:					
Purchase Water/Wastewater	\$ 886,222	\$ 835,709	\$ 816,080	\$ 664,709	\$ 480,706
Maintenance & Repair	144,427	96,877	82,727	86,540	80,809
Security and Security Lights	58,779	57,973	61,374	42,960	20,515
Inspection Expense	15,533	19,410	47,864	52,580	56,897
Tax Assessor/Collector	3,797	3,302	5,989	5,849	4,744
Legal Fees	55,280	92,205	68,419	60,187	56,717
Audit Fees	12,750	12,250	11,750	11,250	10,500
Engineering Fees	27,739	44,929	20,618	20,153	21,461
Garbage Expense	241,175	228,338	197,123	166,694	132,276
Bookkeeping Fees	25,350	25,350	25,350	24,750	25,350
Other Consulting Fees	33,673	64,464	10,816	4,243	1,350
Management Fees	129,633	128,231	122,217	108,475	94,003
Insurance	10,104	10,715	7,443	7,269	4,699
Miscellaneous	43,286	486,052	14,118	3,854	4,353
Director Fees/Payroll Taxes	10,334	7,616	8,074	6,899	8,270
Capital Outlay	154,409	2,494,655	650,522	64,357	-
Total Expenditures	<u>\$ 1,852,491</u>	<u>\$ 4,608,076</u>	<u>\$ 2,150,484</u>	<u>\$ 1,330,769</u>	<u>\$ 1,002,650</u>
Net Revenues	\$ 233,456	\$ (2,640,462)	\$ 275,718	\$ 888,946	\$ 818,378
Beginning Fund Balance	\$ 1,265,890	\$ 3,935,867	\$ 3,660,149	\$ 2,771,203	\$ 1,952,825
Adjustments	-	(29,515)	-	-	-
Ending Fund Balance	<u>\$ 1,499,346</u>	<u>\$ 1,265,890</u>	<u>\$ 3,935,867</u>	<u>\$ 3,660,149</u>	<u>\$ 2,771,203</u>

Note: Fiscal 2019 capital outlay of \$2,494,655 represents a one-time cash disbursement to purchase parks facilities from the prior developer (in lieu of issuing bonds). No further reimbursements are owed by the District for such park facilities or for water, wastewater, or drainage facilities.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

TABLE 3 – DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt ^(a)			The Bonds ^(b)			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2021	\$ 750,000	\$ 574,375	\$ 1,324,375	\$ -	\$ 10,415	\$ 10,415	\$ 1,334,790
2022	775,000	512,613	1,287,613	15,000	54,338	69,338	1,356,950
2023	675,000	489,713	1,164,713	140,000	53,888	193,888	1,358,600
2024	720,000	469,813	1,189,813	125,000	49,688	174,688	1,364,500
2025	740,000	448,313	1,188,313	130,000	45,938	175,938	1,364,250
2026	770,000	425,838	1,195,838	135,000	42,038	177,038	1,372,875
2027	785,000	406,294	1,191,294	145,000	37,988	182,988	1,374,281
2028	795,000	386,044	1,181,044	160,000	33,638	193,638	1,374,681
2029	845,000	364,481	1,209,481	150,000	31,838	181,838	1,391,319
2030	870,000	341,331	1,211,331	150,000	30,150	180,150	1,391,481
2031	915,000	317,469	1,232,469	140,000	27,900	167,900	1,400,369
2032	935,000	292,188	1,227,188	150,000	25,800	175,800	1,402,988
2033	1,005,000	265,644	1,270,644	125,000	22,800	147,800	1,418,444
2034	1,030,000	237,413	1,267,413	125,000	20,300	145,300	1,412,713
2035	1,045,000	205,437	1,250,437	150,000	17,800	167,800	1,418,237
2036	1,140,000	172,862	1,312,862	95,000	14,800	109,800	1,422,662
2037	1,010,000	137,469	1,147,469	270,000	12,900	282,900	1,430,369
2038	965,000	104,000	1,069,000	185,000	7,500	192,500	1,261,500
2039	830,000	71,850	901,850	190,000	3,800	193,800	1,095,650
2040	870,000	41,750	911,750	-	-	-	911,750
2041	340,000	10,200	350,200	-	-	-	350,200
	<u>\$ 17,810,000</u>	<u>\$ 6,275,094</u>	<u>\$ 24,085,094</u>	<u>\$ 2,580,000</u>	<u>\$ 543,515</u>	<u>\$ 3,123,515</u>	<u>\$ 27,208,608</u>

(a) Excludes the Refunded Bonds.

(b) Interest calculated at the rates shown on the inside cover page.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

TABLE 4 – TAXABLE ASSESSED VALUE

2018 Certified Taxable Assessed Valuation	\$	299,055,741	(a)
2019 Certified Taxable Assessed Valuation	\$	325,813,559	(a)
2020 Certified Taxable Assessed Valuation	\$	330,968,668	(a)
2021 Preliminary Taxable Assessed Valuation.....	\$	377,134,110	(a)
Gross Debt Outstanding (after Issuance of the Bonds)	\$	20,390,000	(b)
Operating Fund Balance as of April 14, 2021.....	\$	1,896,176	
2020 Tax Rates:			
Maintenance.....	\$	0.1900	
Debt Service.....	\$	0.4200	
Total.....	\$	0.6100	
Debt Service Fund Balance (as of April 14, 2021)	\$	2,303,465	(c)
Ratio of Gross Debt to 2020 Certified Taxable Assessed Valuation.....		6.16%	
Ratio of Gross Debt to 2021 Preliminary Taxable Assessed Valuation.....		5.41%	

Area of District: 378.58 Acres
 Estimated Population as of April 15, 2021: 3,724^(d)

- (a) Certified Taxable Assessed Valuations of the District as of January 1 as certified by the Williamson Central Appraisal District (“WCAD”). See “TAXING PROCEDURES.”
- (b) Includes the Bonds and excludes the Refunded Bonds.
- (c) Unaudited as of April 14, 2021. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.
- (d) Based upon 3.5 residents per completed and occupied single-family home.

TABLE 5 – UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Water, Sewer, Drainage	5/12/2007	\$ 39,990,000	\$ 22,540,000	\$ -	\$ 17,450,000
Parks and Recreation	5/12/2007	7,440,000	-	-	7,440,000
Water, Sewer, Drainage Refunding	5/12/2007	59,985,000	450,000	115,000	59,420,000
Park and Recreation Refunding	5/12/2007	11,160,000	-	-	11,160,000
Total		<u>\$ 118,575,000</u>	<u>\$ 22,990,000</u>	<u>\$ 115,000</u>	<u>\$ 95,470,000</u>

- (a) Amount of refunding authority required for the subject financing to be determined at pricing.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

TABLE 6 – OUTSTANDING BONDS

Purpose	Dated Date	Series	Original Principal Amount	Outstanding Balance
Water, Sewer, Drainage	3/1/2010	2010	\$ 2,250,000	\$ -
Water, Sewer, Drainage	2/1/2012	2012	2,310,000	-
Water, Sewer, Drainage	3/1/2013	2013	1,700,000	-
Refunding	5/1/2013	2013A	2,460,000	-
Water, Sewer, Drainage	9/1/2014	2014	3,000,000	210,000 ^(a)
Water, Sewer, Drainage	9/1/2015	2015	8,000,000	7,285,000
Water, Sewer, Drainage	9/1/2016	2016	5,280,000	4,865,000
Refunding	9/21/2017	2017	2,125,000	1,890,000
Refunding	7/28/2020	2020	3,560,000	3,560,000
Refunding	6/22/2021	2021	2,580,000	2,580,000
Total			<u>\$ 33,265,000</u>	<u>\$ 20,390,000</u> ^(a)

(a) Balance excludes the Refunded Bonds.

TABLE 7 – CASH AND INVESTMENT BALANCES^(a)

General Fund.....	\$ 1,896,176
Debt Service Fund.....	2,303,465 ^(b)
Capital Projects Fund	0

(a) Unaudited as of April 14, 2021.

(b) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . . Under Texas law, the District is authorized to make investments meeting the requirements of the PFIA, which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District’s account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District’s custodian of the banking deposits issued for the District’s account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission (the “SEC”) and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the “PFIA”) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below,

require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund, groups methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and

records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 8 – CURRENT INVESTMENTS

The District, as of April 14, 2021, is primarily invested in bank Money Market accounts, bank Certificates of Deposit, TexPool and LOGIC. This investment portfolio is generally representative of the District's investment practices. GASB Statement No.3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool and LOGIC are public funds investment pools. TexPool and LOGIC have not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool and LOGIC. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

Investments	Market Value	% of Total
TexPool/LOGIC	\$ 3,810,087	90.72%
Money Markets and Bank CD's	389,555	9.28%
	\$ 4,199,642	100.00%

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 several sources, including information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. 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 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 be determined. Political subdivision 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 of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 3-31-21
Williamson County	\$ 963,095,000	0.45%	\$ 4,333,928
Austin Community College District	386,255,000	0.14%	540,757
Round Rock ISD	936,655,000	0.91%	8,523,561
Paloma Lake MUD No. 1	20,390,000	100.00%	20,390,000 ^(a)
Total Direct and Overlapping Tax Supported Debt			\$ 33,788,245
Ratio of Direct and Overlapping Tax Supported Debt to 2020 Taxable Assessed Valuation			10.21%
Ratio of Direct and Overlapping Tax Supported Debt to 2021 Preliminary Assessed Valuation			8.96%

(a) Includes the Bonds and excludes the Refunded Bonds.

TAX DATA

TABLE 9 – TAX COLLECTIONS

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District’s Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Tax Year Ended 9/30	Taxable Assessed Valuation ^(a)	Tax Rate	Tax Levy	% Total Collections
2016	\$ 211,821,784	\$ 0.9435	\$1,998,539	100.00%
2017	263,649,987	0.9000	2,372,850	99.90%
2018	299,055,741	0.6500	1,943,862	99.90%
2019	325,813,559	0.6150	2,003,753	99.85%
2020	330,968,668	0.6100	2,018,909	99.90%
2021	377,134,110	0.6100	2,300,518	99.19% ^(b)

(a) Assessed Valuation reflects the adjusted value at September 30th of each respective year as included in the audited financial statement.

(b) Partial collections as of March 31, 2021.

TABLE 10 – DISTRICT TAX RATES

Tax Year Ended 9/30	Tax Rate	Debt Service Fund	General Fund
2016	\$ 0.9435	\$ 0.5500	\$ 0.3935
2017	0.9000	0.5500	0.3500
2018	0.6500	0.4700	0.1800
2019	0.6150	0.4250	0.1900
2020	0.6100	0.4200	0.1900

TAX RATE LIMITATION . . . The District’s tax rate for debt service on the Bonds is legally unlimited as to rate and amount.

MAINTENANCE TAX . . . The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District’s improvements, if such maintenance tax is authorized by a vote of the District’s electors. Such tax is in addition to taxes that the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. At an election held on May 12, 2007, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under “District Tax Rates,” the District levied a 2020 maintenance and operation tax of \$0.1900/\$100 assessed valuation. See “THE DISTRICT – General.”

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

TABLE 11 – PRINCIPAL TAXPAYERS

The following list of principal taxpayers was provided by the Williamson Central Appraisal District based on the 2020 tax roll of the District, which reflect ownership as of January 1, 2020.

Taxpayer	Taxable Assessed Value	% of 2020 Taxable Assessed Valuation
MHI Partnership Ltd. ^(a)	\$ 1,692,900	0.51%
North Paloma Lake Development Inc.	887,251	0.27%
Individual Homeowner	635,156	0.19%
Individual Homeowner	580,557	0.18%
Individual Homeowner	517,620	0.16%
Individual Homeowner	476,738	0.14%
Individual Homeowner	460,934	0.14%
Individual Homeowner	455,123	0.14%
Individual Homeowner	450,237	0.14%
Individual Homeowner	448,597	0.14%
	\$ 6,605,113	2.00%

(a) Taxpayer concentrated in the homebuilding industry. See “INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments.”

TAX ADEQUACY FOR DEBT SERVICE

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2020 Certified Taxable Assessed Valuation and the 2021 Preliminary Taxable Assessed Valuation and utilize tax rates adequate to service the District’s total debt service requirements, including the Bonds and excluding the Refunded Bonds (at the rates shown on the inside cover page). No available debt service funds are reflected in these computations. See “INVESTMENT CONSIDERATIONS – Impact on District Tax Rates.”

Average Annual Debt Service Requirements on the Bonds (2021-2041)	\$ 1,295,648
\$0.4121 Tax Rate on 2020 Certified Taxable Assessed Valuation @ 95% collections	\$ 1,295,726
\$0.3617 Tax Rate on 2021 Preliminary Taxable Assessed Valuation @ 95% collections.....	\$ 1,295,889
Maximum Annual Debt Service Requirements on the Bonds (2037)	\$ 1,430,369
\$0.4550 Tax Rate on 2020 Certified Taxable Assessed Valuation @ 95% collections	\$ 1,430,612
\$0.3993 Tax Rate on 2021 Preliminary Taxable Assessed Valuation @ 95% collections.....	\$ 1,430,602

TAXING PROCEDURES

AUTHORITY TO LEVY TAXES . . . The Board is authorized to levy an annual ad valorem tax, without limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, its other remaining outstanding bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of and Security for Payment.” Under Texas law, the Board is also authorized to levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, as authorized by its voters. See “TAX DATA – Tax Rate Limitation.”

PROPERTY TAX CODE AND COUNTY WIDE APPRAISAL DISTRICT . . . The Texas Property 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 here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas 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 Williamson Central Appraisal District has the responsibility for appraising property for all taxing units within Williamson County, including the District. Such appraisal values are subject to review and change by the Williamson Central Appraisal Review Board (the “Appraisal Review Board”).

PROPERTY SUBJECT TO TAXATION BY THE DISTRICT . . . General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; 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 sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous 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, of between \$5,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

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 value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Tax Abatement: Williamson County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the 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 a comprehensive plan. To date, the District has not executed any abatement agreements.

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

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

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail

themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires the WCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the WCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the WCAD 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 WCAD chooses formally to include such values on its appraisal roll.

DISTRICT AND TAXPAYER REMEDIES . . . Under certain circumstances taxpayers and taxing units (such as the District), may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury, if requested by any party. Additionally, taxing units may bring suit against the WCAD 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 which 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 which 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 the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

TAX PAYMENT INSTALLMENTS . . . 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 tax payer 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.

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 in the district, 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 in the district, subject to certain homestead exemptions, 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 imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, 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

According to the District's Board of Directors, the District is considered a Developed District as of the 2020 tax year. 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 on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS – General – Tax Collections and Foreclosure Remedies."

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

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

To the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

LEGAL MATTERS

LEGAL OPINIONS . . . The District will furnish the Underwriter a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel to the District, to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the 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 governmental immunity, bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. See “APPENDIX B – Form of Bond Counsel Opinion.” Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions “SALE AND DISTRIBUTION OF THE BONDS – Securities Laws,” “PLAN OF FINANCING – Escrow Agreement,” “THE BONDS” (except for the subcaptions “DTC Redemption Provision,” “Payment Record” and “Remedies in Event of Default”), “LEGAL MATTERS” (except for the last sentence of the first paragraph hereof and the subcaption “No-Litigation Certificate”), “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” and such firm is of the opinion that the information relating to the Bonds and the legal issues addressed therein is correct as to matters of law and with respect to the Bonds, such provision confirms to the Bond Order. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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.

NO-LITIGATION CERTIFICATE . . . The District will furnish to the Underwriter a certificate, dated the Date of Initial Delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

TAX MATTERS

OPINION . . . On the Date of Initial Delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, 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. See “APPENDIX B – Form of Bond Counsel’s Opinion.”

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, (b) the verification report, and (c) 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 the 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 to 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 the 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 the proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions accumulated, all of which are subject to change or modification, retroactively.

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

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

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

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

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate “issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution.

Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners. 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 (“MSRB”) through its electronic municipal market access system. This Information will be available free of charge by the MSRB via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 11 and in APPENDIX A if such audited financial statements as provided in APPENDIX A are then available. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

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 “Rule”). The updated information will include audited financial statements, if it is completed by the required time. If audited financial statements are not available within 12 months after the District’s fiscal year end, the District will file unaudited financial statements within 12 months of any such fiscal year end and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX A 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 September 30. Accordingly, it must provide updated information by March 31 of each year unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS . . . The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax 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 financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties. The terms “financial obligation” and “material” when used in this paragraph shall have the meanings ascribed to them under federal securities laws.

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “– Annual Reports.”

AVAILABILITY OF INFORMATION FROM MSRB . . . The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB and will be available to the public free of charge at www.emma.msrb.org.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) 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 or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data 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.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Specialized Public Finance Inc. (the “Financial Advisor”), which firm was employed in 2014 as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

OFFICIAL STATEMENT

PREPARATION . . . The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See “The District.” The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources: “THE DISTRICT” – Jones-Heroy & Associates, Inc., Round Rock Independent School District and various area commercial and retail establishments; “THE SYSTEM” – Engineer; “FINANCIAL STATEMENT” – Williamson Central Appraisal District; “– Estimated Overlapping Debt Statement” – Municipal Advisory Council of Texas and Financial Advisor; “TAX DATA” and “WATER AND SEWER OPERATIONS” – Audits, Records and Tax Assessor/Collector; “MANAGEMENT” – District Directors; “DEBT SERVICE REQUIREMENTS” – Financial Advisor; “THE BONDS,” “LEGAL MATTERS,” “TAXING PROCEDURES,” “CONTINUING DISCLOSURE OF INFORMATION” and “TAX MATTERS” – McCall, Parkhurst & Horton, L.L.P.

CONSULTANTS . . . In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

The Engineer: The information contained in the Official Statement relating to engineering matters and to the description of the System and, in particular, that information included in the sections entitled “THE DISTRICT” and “THE SYSTEM,” has been provided by the Engineer, and has been included in reliance upon the authority of said firm in the field of civil engineering.

Auditor: The District’s financial statements for fiscal year ending September 30, 2020 were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, and excerpts of the District’s Audited Financial Statements as of September 30, 2020 have been included as APPENDIX A in reliance upon such firm’s authority in the field of accounting.

ANNUAL AUDITS . . . Under Texas Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year so long as the District has bonds outstanding. Copies of each audit report must also be filed in the office of the District. The District’s fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District’s audit reports to any Registered Owner or other member of the public within a reasonable time on request, upon payment of prescribed charges.

This Official Statement was approved by the Board of Directors of Paloma Lake Municipal Utility District No. 1, as of the date shown on the first page hereof.

/s/ DALLAS KELLEY-KERR

President, Board of Directors
Paloma Lake Municipal Utility District No. 1

/s/ JAMES E. ALTY, JR.

Secretary, Board of Directors
Paloma Lake Municipal Utility District No. 1

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Unlimited Tax Bonds, Series 2014		
Amount	Maturity	Coupon
\$ 125,000	9/1/2023	3.000%
110,000	9/1/2024	3.000%
115,000	9/1/2025 ⁽¹⁾	3.000%
120,000	9/1/2026 ⁽¹⁾	3.000%
130,000	9/1/2027 ⁽²⁾	3.000%
145,000	9/1/2028 ⁽²⁾	3.000%
135,000	9/1/2029 ⁽³⁾	3.250%
140,000	9/1/2030 ⁽³⁾	3.250%
130,000	9/1/2031 ⁽⁴⁾	3.500%
145,000	9/1/2032 ⁽⁴⁾	3.500%
120,000	9/1/2033 ⁽⁵⁾	3.625%
125,000	9/1/2034 ⁽⁵⁾	3.625%
150,000	9/1/2035 ⁽⁶⁾	3.750%
100,000	9/1/2036 ⁽⁶⁾	3.750%
275,000	9/1/2037 ⁽⁷⁾	3.875%
195,000	9/1/2038 ⁽⁷⁾	3.875%
205,000	9/1/2039 ⁽⁷⁾	3.875%
<u>\$ 2,465,000</u>		

Redemption Date: 9/1/2021

Redemption Price: 100%

- (1) Term Bonds maturing on September 1, 2026.
- (2) Term Bonds maturing on September 1, 2028.
- (3) Term Bonds maturing on September 1, 2030.
- (4) Term Bonds maturing on September 1, 2032.
- (5) Term Bonds maturing on September 1, 2034.
- (6) Term Bonds maturing on September 1, 2036.
- (7) Term Bonds maturing on September 1, 2039.

THIS PAGE LEFT INTENTIONALLY BLANK

PHOTOGRAPHS

The following photographs were taken in the District. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."

THIS PAGE LEFT INTENTIONALLY BLANK









APPENDIX A

Audited Financial Statements

The information contained in this appendix has been excerpted from the audited financial statements of Paloma Lake Municipal Utility District No. 1 for the fiscal year ended September 30, 2020. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

THIS PAGE LEFT INTENTIONALLY BLANK

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

Board of Directors
Paloma Lake Municipal
Utility District No. 1
Williamson County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Paloma Lake Municipal Utility District No. 1 (the "District"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Texas Supplementary Information and the Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

February 10, 2021

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT’S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

In accordance with Governmental Accounting Standards Board Statement 34 (“GASB 34”), the management of Paloma Lake Municipal Utility District No. 1 (the “District”) offers the following discussion and analysis to provide an overview of the District’s financial activities for the year ended September 30, 2020. Since this information is designed to focus on current year’s activities, resulting changes, and currently known facts, it should be read in conjunction with the District’s financial statements that follow.

FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the nonspendable and unassigned fund balance was \$1,499,346. General fund revenues increased from \$1,967,614 in the previous fiscal year to \$2,085,947 in the current fiscal. The additional revenues to the General Fund resulted from an increase in service revenues and an increase in tax revenues which were generated from an adjustment in the tax rate as well as an increase in the District’s overall assessed valuation.
- *Debt Service Fund:* Fund balance restricted for debt service increased from \$1,175,871 in the previous fiscal year to \$1,195,585 in the current fiscal year. The Debt Service Fund remitted \$720,000 of bond principal and \$617,912 in bond interest during the current fiscal year.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$323,378. Net position increased from \$2,327,952 to \$2,651,330.

OVERVIEW OF THE DISTRICT

The District, a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality effective August 10, 2006, and confirmed pursuant to an election held within the District on May 12, 2007. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater and providing and operating park and recreational facilities and operates pursuant to Chapters 49 and 54 of the Texas Water Code and Article XVI, Section 59 of the Texas Constitution, both as amended.

The District encompasses approximately 379 acres of land and is located in northeast Williamson County and lies approximately six miles northeast of downtown Round Rock, TX, five miles southeast of the City of Georgetown, TX, five miles east of the Interstate Highway 35 corridor and less than two miles north of US Highway 79. The District is contained entirely within the extraterritorial jurisdiction of Round Rock.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

USING THIS ANNUAL REPORT

This annual report consists of these parts:

1. *Management's Discussion and Analysis* (this section)
2. *Financial Statements*
3. *Notes to the Financial Statements*
4. *Required Supplementary Information*
5. *Texas Supplementary Information* (required by the Texas Commission on Environmental Quality (the TSI section))
6. *Other Supplementary Information* (the OSI section)

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Governmental Funds Total" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The *Statement of Net Position and Governmental Funds Balance Sheet* includes a column (titled "Governmental Funds Total") that represents a balance sheet prepared using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net position will indicate financial health.

The *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances* includes a column (titled "Governmental Funds Total") that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances*.

The *Required Supplementary Information* presents a comparison statement between the District's adopted budget and its actual results.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Change Increase
	2020	2019	(Decrease)
Current and other assets	\$ 3,128,687	\$ 2,974,730	\$ 153,957
Capital and non-current assets	20,213,661	20,562,567	(348,906)
Total Assets	<u>23,342,348</u>	<u>23,537,297</u>	<u>(194,949)</u>
Deferred outflows of resources	<u>66,641</u>	<u>177,809</u>	<u>(111,168)</u>
Current Liabilities	1,197,417	1,286,238	(88,821)
Long-term Liabilities	19,560,242	20,100,916	(540,674)
Total Liabilities	<u>20,757,659</u>	<u>21,387,154</u>	<u>(629,495)</u>
Net Investment in Capital Assets	60	(80,540)	80,600
Restricted	1,154,559	1,129,033	25,526
Unrestricted	1,496,711	1,279,459	217,252
Total Net Position	<u>\$ 2,651,330</u>	<u>\$ 2,327,952</u>	<u>\$ 323,378</u>

The District's combined net position increased by \$323,378 to \$2,651,330 from the previous year balance of \$2,327,952. Some of the District's assets are restricted for particular purposes, such as debt service. The District's unrestricted net assets, which can be used to finance day to day operations, totaled \$1,496,711.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

Revenues and Expenses:

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2020	2019	
Property taxes	\$ 2,022,310	\$ 1,955,411	\$ 66,899
Service account revenues	1,410,491	1,295,860	114,631
Tap fees and inspections	40,450	46,575	(6,125)
Other	34,058	140,662	(106,604)
Total Revenues	3,507,309	3,438,508	68,801
Water, wastewater and garbage	1,127,397	1,064,047	63,350
Management services	129,633	128,231	1,402
Repairs and maintenance	159,960	99,931	60,029
Professional fees	154,792	239,198	(84,406)
Other	135,293	603,299	(468,006)
Debt service	768,225	690,471	77,754
Depreciation/Amortization	708,631	423,915	284,716
Total Expenses	3,183,931	3,249,092	(65,161)
Change in Net Position	323,378	189,416	133,962
Beginning Net Position	2,327,952	2,138,536	189,416
Ending Net Position	\$ 2,651,330	\$ 2,327,952	\$ 323,378

Revenues were \$3,507,309 for the fiscal year ended September 30, 2020 while expenses were \$3,183,931. Net position increased \$323,378.

Property tax revenues in the current fiscal year totaled \$2,022,310. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2019 tax year (September 30, 2020 fiscal year) were based upon a current assessed value of \$328,682,811 and a tax rate of \$0.615 per \$100 of assessed valuation. Property taxes levied for the 2018 tax year (September 30, 2019 fiscal year) were based upon an adjusted assessed value of \$300,661,699 and a tax rate of \$0.65 per \$100 assessed valuation. The tax rate levied is determined after the District reviews the General Fund budget requirements and the Debt Service Fund debt service obligations of the District. The District's primary revenue sources are property taxes, service account revenues and system connection fees.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

ANALYSIS OF GOVERNMENTAL FUNDS

	<u>Governmental Funds by Year</u>		
	2020	2019	2018
Cash on deposit	\$ 548,666	\$ 551,338	\$ 600,916
Cash equivalent investments	2,275,921	2,104,375	5,058,288
Receivables	294,280	287,748	202,364
Total Assets	\$ 3,118,867	\$ 2,943,461	\$ 5,861,568
Accounts payable	271,488	343,573	176,535
Other	139,136	147,027	165,365
Total Liabilities	410,624	490,600	341,900
Deferred inflows of resources	13,312	11,100	8,581
Nonspendable	1,184	144	664
Restricted	1,195,585	1,175,871	1,575,220
Unassigned	1,498,162	1,265,746	3,935,203
Total Fund Balance	2,694,931	2,441,761	5,511,087
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 3,118,867	\$ 2,943,461	\$ 5,861,568

For the fiscal year ended September 30, 2020, the District's governmental funds reflect a combined fund balance of \$2,694,931.

This fund balance includes a \$233,456 increase in General Fund net revenues.

The Debt Service Fund reflects an increase of \$19,714. The Debt Service Fund remitted principal payments of \$720,000 and interest payments of \$617,912. More detailed information about the District's debt is presented in the *Notes to the Financial Statements*.

BUDGETARY HIGHLIGHTS

The *General Fund* pays for daily operating costs. On September 16, 2019 the Board of Directors approved a budget including revenues of \$1,984,616 as compared to expenditures of \$1,959,337. When comparing actual to budget, the District had a positive variance of \$208,177. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

CAPITAL ASSETS

The District's governmental activities had \$20,213,661 invested in infrastructure. The detail is reflected in the following schedule:

	<u>Summary of Capital Assets, net</u>	
	<u>9/30/2020</u>	<u>9/30/2019</u>
Capital Assets:		
Land	\$ 31,698	\$ 31,698
Park improvements	2,649,064	2,494,655
Water/Wastewater/Drainage	19,893,364	19,893,364
Less: Accumulated Depreciation	(2,360,465)	(1,857,150)
Total Net Capital Assets	<u>\$ 20,213,661</u>	<u>\$ 20,562,567</u>

More detailed information about the District's capital assets is presented in the *Notes to the Financial Statements*

LONG-TERM DEBT

The District has the following balances outstanding on unlimited tax bonds:

	<u>Bonds Payable</u>
Series 2014	\$ 2,675,000
Series 2015	7,285,000
Series 2016	4,865,000
Series 2017	1,890,000
Series 2020	3,560,000
Total	<u>\$ 20,275,000</u>

The District owes approximately \$20.3 million to bond holders. The ratio of the District's long-term debt to the total 2019 taxable assessed valuation (\$328,682,811) is 6.2%. The District's population as provided by the District, as of September 30, 2020, is 3,594. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The amount of assessed value of property within the District for the 2020 tax year (September 30, 2021 fiscal year) is approximately \$340 million and the tax rate levied was \$0.61 per \$100 of assessed valuation. Approximately 31% of the property tax will fund general fund costs and approximately 69% of the property tax revenue will be used to make debt service payments on the District's bond debt.

The adopted budget for fiscal year 2021 projects a general fund balance increase of \$53,839.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL STATEMENTS

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2020

	General Fund	Debt Service Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Net Position
<u>ASSETS</u>					
Cash and cash equivalents					
Cash on deposit	\$ 548,666	\$ -	\$ 548,666	\$ -	\$ 548,666
Cash equivalent investments	1,075,932	1,199,989	2,275,921	-	2,275,921
Investments	-	-	-	-	-
Receivables-					
Service, net of allowance of doubtful accounts of \$-0-	219,285	-	219,285	-	219,285
Taxes	4,907	8,405	13,312	-	13,312
Interfund receivable	5,138	-	5,138	(5,138)	-
Intergovernmental	53,544	-	53,544	-	53,544
Other	1,083	734	1,817	-	1,817
Prepaid costs	1,184	-	1,184	14,958	16,142
Capital assets, net of accumulated depreciation -					
Land	-	-	-	31,698	31,698
Park Improvements	-	-	-	2,526,936	2,526,936
Water/Wastewater/Drainage System	-	-	-	17,655,027	17,655,027
TOTAL ASSETS	<u>1,909,739</u>	<u>1,209,128</u>	<u>3,118,867</u>	<u>20,223,481</u>	<u>23,342,348</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Deferred charges on refunding	-	-	-	66,641	66,641
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,909,739</u>	<u>\$ 1,209,128</u>	<u>\$ 3,118,867</u>	<u>\$ 20,290,122</u>	<u>\$ 23,408,989</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 271,488	\$ -	\$ 271,488	-	271,488
Accrued interest payable	-	-	-	49,431	49,431
Capital recovery fees payable	12,248	-	12,248	-	12,248
Due to developer	-	-	-	22,500	22,500
Refundable deposits	121,750	-	121,750	-	121,750
Interfund payable	-	5,138	5,138	(5,138)	-
Bonds payable -					
Due within one year	-	-	-	750,000	750,000
Due after one year	-	-	-	19,530,242	19,530,242
TOTAL LIABILITIES	<u>405,486</u>	<u>5,138</u>	<u>410,624</u>	<u>20,347,035</u>	<u>20,757,659</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Property taxes	4,907	8,405	13,312	(13,312)	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,907</u>	<u>8,405</u>	<u>13,312</u>	<u>(13,312)</u>	<u>-</u>
<u>FUND BALANCES / NET POSITION</u>					
Fund balances:					
Nonspendable	1,184	-	1,184	(1,184)	-
Restricted for debt service	-	1,195,585	1,195,585	(1,195,585)	-
Unassigned	1,498,162	-	1,498,162	(1,498,162)	-
TOTAL FUND BALANCES	<u>1,499,346</u>	<u>1,195,585</u>	<u>2,694,931</u>	<u>(2,694,931)</u>	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,909,739</u>	<u>\$ 1,209,128</u>	<u>\$ 3,118,867</u>		
<u>NET POSITION:</u>					
Net investment in capital assets				60	60
Restricted for debt service				1,154,559	1,154,559
Unrestricted				1,496,711	1,496,711
TOTAL NET POSITION				<u>\$ 2,651,330</u>	<u>\$ 2,651,330</u>

The accompanying notes are an integral part of this statement.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
SEPTEMBER 30, 2020

	General Fund	Debt Service Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
REVENUES:					
Water and wastewater service, including penalties	\$ 1,410,491	\$ -	\$ 1,410,491	\$ -	\$ 1,410,491
Property taxes, including penalties	624,064	1,396,034	2,020,098	2,212	2,022,310
Tap fees and inspections	40,450	-	40,450	-	40,450
Interest and other	10,942	23,116	34,058	-	34,058
TOTAL REVENUES	2,085,947	1,419,150	3,505,097	2,212	3,507,309
EXPENDITURES / EXPENSES:					
Current:					
Water and wastewater purchases	886,222	-	886,222	-	886,222
Disposal service	241,175	-	241,175	-	241,175
Repairs and maintenance	144,427	-	144,427	-	144,427
Meter sets/inspection fees	15,533	-	15,533	-	15,533
Security lights	26,047	-	26,047	-	26,047
Director fees, including payroll taxes	10,334	-	10,334	-	10,334
Legal fees	55,280	-	55,280	-	55,280
Engineering fees	27,739	-	27,739	-	27,739
Management fees	129,633	-	129,633	-	129,633
Bookkeeping fees	25,350	-	25,350	-	25,350
Audit fees	12,750	-	12,750	-	12,750
Other consulting fees	33,673	-	33,673	-	33,673
Security services	32,732	-	32,732	-	32,732
Insurance	10,104	-	10,104	-	10,104
Tax appraisal/collection fees	3,797	8,493	12,290	-	12,290
Public notice	644	-	644	-	644
Developer interest	16,743	-	16,743	-	16,743
Other	25,899	500	26,399	-	26,399
Debt service:					
Principal	-	720,000	720,000	(720,000)	-
Interest	-	617,912	617,912	(4,288)	613,624
Fiscal agent fees	-	2,400	2,400	-	2,400
Bond issuance expenditures	-	167,369	167,369	(15,168)	152,201
Capital outlay	154,409	-	154,409	(154,409)	-
Depreciation	-	-	-	503,315	503,315
Amortization	-	-	-	205,316	205,316
TOTAL EXPENDITURES / EXPENSES	1,852,491	1,516,674	3,369,165	(185,234)	3,183,931
Excess / (Deficiency) of revenues over expenditures/expenses	233,456	(97,524)	135,932	187,446	323,378
OTHER FINANCING SOURCES					
Bond premium	-	99,891	99,891	(99,891)	-
Bond discount	-	(26,825)	(26,825)	26,825	-
Proceeds from bond refunding	-	3,560,000	3,560,000	(3,560,000)	-
Payment to escrow agent	-	(3,515,828)	(3,515,828)	3,515,828	-
TOTAL OTHER FINANCING SOURCES	-	117,238	117,238	(117,238)	-
NET CHANGE IN FUND BALANCES	233,456	19,714	253,170	(253,170)	-
CHANGE IN NET POSITION				323,378	323,378
FUND BALANCES / NET POSITION:					
Beginning of the year	1,265,890	1,175,871	2,441,761	(113,809)	2,327,952
End of the year	<u>\$ 1,499,346</u>	<u>\$ 1,195,585</u>	<u>\$ 2,694,931</u>	<u>\$ (43,601)</u>	<u>\$ 2,651,330</u>

The accompanying notes are an integral part of this statement.

**NOTES TO THE
FINANCIAL STATEMENTS**

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (GAAP) as applied to governmental entities. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board (GASB)*, which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity - The District was created, organized and established on August 10, 2006, by the Texas Commission on Environmental Quality (formerly the Texas Natural Resource Conservation Commission) pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. A five member Board of Directors which has been elected by District residents or appointed by the Board of Directors governs the District. The District is not included in any other governmental "reporting entity" as defined by GASB standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined by GASB standards which are included in the District's reporting entity.

Basis of Presentation - Government-wide and Fund Financial Statements - These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

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

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

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

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

The basic financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. Statement No. 34 also requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition a budgetary comparison statement is presented that compares the adopted General Fund budget with actual results.

- **Government-wide Statements:** The District's statement of net position includes both non-current assets and non-current liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. In addition, the government-wide statement of activities column reflects depreciation expense on the District's capital assets, including infrastructure.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from financial activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

- **Fund Financial Statements:** Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures of either fund category) for the determination of major funds. All of the District's funds are reported as major funds.

Governmental Fund Types - The accounts of the District are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The various funds are grouped by category and type in the financial statements. The District maintains the following fund types:

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.
- **Debt Service Fund** – The Debt Service Fund is used to account for the resources restricted, committed or assigned for the payment of debt principal, interest and related costs.

Non-current Governmental Assets and Liabilities - GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the government-wide financial statement column in the Statement of Net Position.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Basis of Accounting

Government-wide Statements - The government-wide financial statement column is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Fund Financial Statements - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the net current assets. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available).

"Measurable" means that the amount of the transaction can be determined and "available" means the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due. This exception is in conformity with generally accepted accounting principles.

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. All other revenues of the District are recorded on the accrual basis in all funds.

The District reports deferred inflows of resources on its balance sheet. Deferred inflows arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the deferred inflows are removed from the balance sheet and revenue is recognized.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Budgets and Budgetary Accounting – A budget was adopted on September 16, 2019 for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year end.

Pensions - The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that Directors are considered to be “employees” for federal payroll tax purposes only.

Cash and Cash Equivalents – Includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of common trust funds, money market funds, and obligations in the State Treasurer’s Investment Pool, are recorded at acquisition cost.

Capital Assets – Capital assets, which include Administrative Facilities and Equipment, Common and Recreation Areas, Water Production/Distribution System, Wastewater Collection System, Water Quality Ponds and Organizational Costs are reported in the government-wide column in the Statement of Net Position. Public domain ("infrastructure") capital assets including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated acquisition value at the time received. Interest incurred during construction of capital facilities is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Common and Recreation Areas	5 - 30
Water Production/Distribution System	10 - 50
Wastewater Collection System	5 - 50
Organizational Costs	5

Interfund Transactions - Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay that amount and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Long-Term Debt - Unlimited tax bonds, which have been issued to fund capital projects, are to be repaid from tax revenues of the District.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Long-Term Debt (continued) -

In the fund financial statements, governmental fund types 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 and discounts on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Balance – Fund balances in governmental funds are classified using the following hierarchy:

- *Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted*: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.
- *Committed*: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.
- *Assigned*: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District does not have any assigned fund balances.
- *Unassigned*: all other spendable amounts in the General Fund.

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

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

Fair Value Measurements - The District complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

- Level 3 are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities
- Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)
- Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS -

Adjustments to convert the Governmental Funds Balance Sheet to the Statement of Net Position are as follows :

Fund balances - total governmental funds		\$ 2,694,931
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds -		
Capital assets	22,574,126	
Less: Accumulated depreciation	<u>(2,360,465)</u>	20,213,661
Prepaid costs		14,958
Deferred Outflows of resources		66,641
Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred revenue for revenues earned but not available		13,312
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds -		
Bonds payable	(20,275,000)	
Issuance discount/premium, net	(5,242)	
Advances from developer	(22,500)	
Accrued interest	<u>(49,431)</u>	<u>(20,352,173)</u>
Net position of governmental activities		<u>\$ 2,651,330</u>

Adjustments to convert the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities are as follows:

Changes in Fund Balances - Governmental Funds		\$ 253,170
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report -		
Capital expenditures in period purchased	154,409	
Bond principal when paid	720,000	
Interest expenditures in year paid	4,288	
Tax revenue when collected	2,212	
Prepaid bond insurance	15,168	
Bond sales and refunding bond activity as other financing source/(use)	<u>(117,238)</u>	778,839
Governmental funds do not report -		
Depreciation	(503,315)	
Amortization	<u>(205,316)</u>	<u>(708,631)</u>
Change in net position of governmental activities		<u>\$ 323,378</u>

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

3. CASH AND INVESTMENTS

The investment policies of the District are governed by State statute and an adopted District Investment Policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; and securities collateralizing time deposits are held by independent third party trustees.

Cash - At September 30, 2020, the carrying amount of the District's deposits was \$548,666 and the bank balance was \$532,013. The bank balance was covered by federal depository insurance and other pledged collateral.

Investments –

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values through investment diversification and limiting investments as follows:

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

Credit risk. The District's investment policy requires the application of the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, and considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy requires that District funds be invested in:

- Obligations of the United States Government and/or its agencies and instrumentalities;
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share;
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency; and
- Securities issued by a State or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and
- Public funds investment pools rated AAA or AAA-m by a nationally recognized rating agency.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

3. CASH AND INVESTMENTS (continued) –

Investments (continued) –

At September 30, 2020, the District held the following investments:

Investment	Fair Value at 9/30/2020	Governmental Fund			Investment Rating	
		General	Debt Service	Capital Projects	Rating	Rating Agency
		Unrestricted	Restricted (1)	Restricted (2)		
Texpool	\$ 203,294	\$ 156,152	\$ 47,142	\$ -	AAAm	Standard & Poors
LOGIC	2,072,627	919,780	1,152,847	-	AAAm	Standard & Poors
	<u>\$ 2,275,921</u>	<u>\$ 1,075,932</u>	<u>\$ 1,199,989</u>	<u>\$ -</u>		

(1) Restricted for Payment of Debt Service and Cost of Assessing and Collecting Taxes.

(2) Restricted for Purchase of Capital Assets.

The District invests in Texpool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. These investments are recorded at amortized cost. The District's other investments are recorded at cost which approximates fair value.

The District also invests in Local Government Investment Cooperative ("LOGIC"), a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The District has delegated the authority to hold legal title to LOGIC as custodian and to make investment purchases with the District's funds. LOGIC is a member-owned, member-governed public funds investment pool. The Board of Trustees, who have governance responsibilities, is comprised of participants in LOGIC and members of the Texas Association of School Business Officials ("TASBO"). LOGIC meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in LOGIC at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from LOGIC.

Concentration of credit risk. In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2020, the District did not own any investments in individual securities.

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with Obligations of the United States or its agencies and instrumentalities. As of September 30, 2020, the District's bank deposits were fully insured.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Williamson Central Appraisal District establishes appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Collector bills and collects the District's property taxes. The Board of Directors set current tax rates on September 16, 2019. The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2019 tax roll. The tax rate, based on total taxable assessed valuation of \$328,682,811 was \$0.615 on each \$100 valuation and was allocated \$0.19 to the General Fund and \$0.425 to the Debt Service Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters at an election held on May 12, 2007.

Property taxes receivable at September 30, 2020 consisted of the following:

	General Fund	Debt Service Fund	Total
Current year levy	\$ 728	\$ 1,628	\$ 2,356
Prior years' levies	4,179	6,777	10,956
	\$ 4,907	\$ 8,405	\$ 13,312

5. INTERFUND ACCOUNTS

A summary of interfund accounts, which resulted from the time lag between dates that payments are made between funds, is as follows at September 30, 2020:

	Interfund	
	Receivable	Payable
General Fund -		
Debt Service Fund	\$ 5,138	\$ -
Debt Service Fund -		
General Fund	-	5,138
	\$ 5,138	\$ 5,138

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance 10/1/2019	Additions	Deletions	Balance 9/30/2020
Capital assets not being depreciated:				
Land	\$ 31,698	\$ -	\$ -	\$ 31,698
Total capital assets not being depreciated	31,698	-	-	31,698
Capital assets being depreciated:				
Park improvements	2,494,655	154,409	-	2,649,064
Water/Wastewater and Drainage	19,893,364	-	-	19,893,364
Total capital assets being depreciated	22,388,019	154,409	-	22,542,428
Less accumulated depreciation for :				
Park improvements	(16,680)	(105,448)	-	(122,128)
Water/Wastewater and Drainage	(1,840,470)	(397,867)	-	(2,238,337)
Total accumulated depreciation	(1,857,150)	(503,315)	-	(2,360,465)
Total capital assets being depreciated, net of accumulated depreciation	20,530,869	(348,906)	-	20,181,963
Total capital assets, net	\$ 20,562,567	\$ (348,906)	\$ -	\$ 20,213,661

7. BONDED DEBT

The following is a summary of bond transactions for the District for the year ended September 30, 2020:

	Unlimited Tax and Revenue Bonds
Bonds payable at October 1, 2019	\$ 20,895,000
Bonds issued	3,560,000
Bonds refunded	(3,460,000)
Bonds retired	(720,000)
Bond premium/discount, net	5,242
Bonds payable at September 30, 2020	\$ 20,280,242

Bonds payable at September 30, 2020, were comprised of the following individual issues:

Unlimited Tax Bonds:

\$2,675,000 – 2014 Unlimited Tax Bonds payable serially through the year 2039 at interest rates which range from 3.0% to 3.875%. Bonds maturing on or after September 1, 2022 are callable prior to maturity beginning September 1, 2021, or any date thereafter. Bonds maturing September 1, 2026, 2028, 2030, 2032, 2034, 2036 and 2039 are term bonds and are subject to mandatory sinking fund redemption.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

7. BONDED DEBT (continued) –

\$7,285,000 – 2015 Unlimited Tax Bonds payable serially through the year 2040 at interest rates which range from 2.0% to 4.0%. Bonds maturing on or after September 1, 2023 are callable prior to maturity beginning September 1, 2022, or any date thereafter. Bonds maturing September 1, 2040 are term bonds and are subject to mandatory sinking fund redemption.

\$4,865,000 – 2016 Unlimited Tax Bonds payable serially through the year 2041 at interest rates which range from 2.0% to 3.0%. Bonds maturing on or after September 1, 2024 are callable prior to maturity beginning September 1, 2023, or any date thereafter. Bonds maturing September 1, 2031, 2033 and 2035 are term bonds and are subject to mandatory sinking fund redemption.

Unlimited Tax Refunding Bonds:

\$1,890,000 – 2017 Unlimited Tax Refunding Bonds payable serially through the year 2037 at interest rates which range from 2.0% to 4.0%. Bonds maturing on or after September 1, 2029 are callable prior to maturity beginning September 1, 2027, or any date thereafter. Bonds maturing September 1, 2029, 2031, 2033, 2035 and 2037 are term bonds and are subject to mandatory sinking fund redemption.

\$3,560,000 – 2020 Unlimited Tax Refunding Bonds payable serially through the year 2038 at interest rates which range from 2.0% to 4.0%. Bonds maturing on or after September 1, 2026 are callable prior to maturity beginning September 1, 2025, or any date thereafter. Bonds maturing September 1, 2035 and 2038 are term bonds and are subject to mandatory sinking fund redemption.

The annual requirements to amortize all bonded debt at September 30, 2020, including interest, are as follows:

Annual Requirements for All Series			
Year Ended	Principal	Interest	Total
September 30,			
2021	\$ 750,000	\$ 617,037	\$ 1,367,037
2022	775,000	597,937	1,372,937
2023	800,000	575,037	1,375,037
2024	830,000	551,387	1,381,387
2025	855,000	526,587	1,381,587
2026-2030	4,735,000	2,258,921	6,993,921
2031-2035	5,600,000	1,541,679	7,141,679
2036-2040	5,590,000	607,436	6,197,436
2041	340,000	10,200	350,200
	\$ 20,275,000	\$ 7,286,221	\$ 27,561,221

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

7. BONDED DEBT (continued) –

Bonds authorized but not issued as of September 30, 2020, are as follows:

<u>Type</u>	<u>Amount</u>
Unlimited Tax Bonds	\$ 17,450,000
Refunding Bonds	\$ 59,535,000
Park and Recreational Facilities	\$ 7,440,000

\$1,195,585 is available in the Debt Service Fund to service the bonded debt.

On July 28, 2020, the District issued unlimited tax refunding bonds of \$3,560,000 (par value) with interest rates of 2.00% to 4.00% to currently refund \$1,500,000 of Series 2013 unlimited tax bonds with interest rates of 3.00% to 4.00% and \$1,960,000 of Series 2013A unlimited tax refunding bonds with interest rates of 3.00% to 4.00%. The bonds had maturity dates of September 1, 2021 through September 1, 2038. The first optional redemption date is August 7, 2020. The unlimited tax refunding bonds were issued at par plus a re-offering premium and, after paying issuance costs of \$167,369, the net proceeds were \$3,515,828. The net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the Series 2013 and Series 2013A bonds are paid. The advance refunding met the requirements of an in-substance debt defeasance and the Series 2013 and Series 2013A bonds were removed from bonds payable. The reacquisition price exceeded the net carrying amount of the old debt by \$55,828. This amount is netted against the new debt and amortized over the life of the refunded debt which is the same as the life of the new debt issued. The advance refunding resulted in an economic gain of \$423,121

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

8. IMPACT FEES

Impact fees as assessed by the City of Round Rock (the “City”) are collected on tap connections for each new residential water and wastewater connection as required under the District’s consent agreement with the City. Collected fees are submitted to the City of Round Rock by the 15th day of the month following collection. The District collected \$183,720 in impact fees during the year and remitted \$171,472 as of September 30, 2020. Of the remaining balance, \$12,248 was remitted to the City on November 11, 2020.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

9. COMMITMENTS AND CONTINGENCIES

The District has entered into various agreements in the ordinary conduct of business including reimbursement agreements to purchase existing utility facilities. As approved by the Texas Commission on Environmental Quality and the Board of Directors, the District will sell bonds to the general public for the purpose of reimbursing qualified construction costs.

The developers of the land within the District has incurred costs for construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the developers by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality, or from operating revenue. Voters within the District have approved the issuance of \$39,990,000 of bonds to fund cost of proposed works, improvements, facilities, plants, equipment, appliances and non-construction costs based upon the District Engineer's reports. As of September 30, 2020, the District has issued \$22,540,000 of unlimited tax bonds to reimburse the developers for eligible costs.

10. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies and the Texas Municipal League Intergovernmental Risk Pool (TML Pool) to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board. Rates are estimated to include all claims expected to occur during the policy including claims incurred but not reported. The TML Pool has established Claims Reserves for each of the types of insurance offered. Although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members may receive returns of contributions if actual results are more favorable than estimated.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

11. INTERCONNECT AGREEMENT

The District and Paloma Lake Municipal Utility District No. 2 (District No. 2) have each entered into a Wholesale Water and Wastewater Agreement with the City of Round Rock, Texas for the purchase of a wholesale potable water supply. The District and District No. 2 are located adjacent to each other and are being developed under a common development scheme as a single master-planned community. The water utility systems have been designed and constructed as an interconnected and looped water system which receives water supply through multiple metered points of delivery.

Each district is currently responsible for the capital costs of two of the master meters and one of the interconnects, as well as all operations and maintenance relating to its master meters and interconnect. Water costs between the District and District No. 2 are allocated based upon the total amount of water billed to customers within each of the districts, the total estimated amount of any unmetered water utilized by each district and the total amount of unaccounted for water in accordance with the Interconnect Agreement dated effective March 11, 2009, between the District and District No. 2.

12. USE OF SURPLUS FUNDS

On November 13, 2019, the District used surplus operating funds in the amount of \$171,152, including interest, to reimburse the Developer for park and recreational improvements.

13. ECONOMIC UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. As a result, economic uncertainties have arisen which could have an impact on the operations of the District. The District is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty, as the potential financial impact of this pandemic is unknown at this time.

THIS PAGE INTENTIONALLY LEFT BLANK

**REQUIRED SUPPLEMENTARY
INFORMATION**

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SEPTEMBER 30, 2020

	<u>Actual</u>	<u>Budget</u>	<u>Variance Positive (Negative)</u>
REVENUES:			
Water and wastewater service, including penalties	\$ 1,410,491	\$ 1,311,506	\$ 98,985
Property taxes, including penalties	624,064	610,110	13,954
Tap fees and inspections	40,450	39,000	1,450
Other	10,942	24,000	(13,058)
TOTAL REVENUES	<u>2,085,947</u>	<u>1,984,616</u>	<u>101,331</u>
EXPENDITURES:			
Current:			
Water and wastewater purchases	886,222	918,614	32,392
Disposal service	241,175	235,970	(5,205)
Repairs and maintenance	144,427	164,250	19,823
Meter sets/inspection fees	15,533	12,840	(2,693)
Security lights	26,047	30,300	4,253
Director fees, including Director fees, including payroll taxes	10,334	9,779	(555)
Legal fees	55,280	72,000	16,720
Engineering fees	27,739	30,000	2,261
Management fees	129,633	135,134	5,501
Bookkeeping fees	25,350	25,350	-
Audit fees	12,750	12,500	(250)
Other consulting fees	33,673	40,000	6,327
Security services	32,732	39,000	6,268
Insurance	10,104	12,200	2,096
Tax appraisal/collection fees	3,797	8,000	4,203
Public notice	644	1,000	356
Developer interest	16,743	-	(16,743)
Other	25,899	29,400	3,501
Capital outlay	154,409	183,000	28,591
TOTAL EXPENDITURES	<u>1,852,491</u>	<u>1,959,337</u>	<u>106,846</u>
NET CHANGE IN FUND BALANCE	233,456	<u>\$ 25,279</u>	<u>\$ 208,177</u>
FUND BALANCE:			
Beginning of the year	1,265,890		
End of the year	<u>\$ 1,499,346</u>		

The accompanying notes are an integral part of this statement.

THIS PAGE LEFT INTENTIONALLY BLANK

APPENDIX B

Form of Bond Counsel's Opinion

THIS PAGE LEFT INTENTIONALLY BLANK

[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.]

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX REFUNDING BONDS, SERIES 2021
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,580,000**

AS BOND COUNSEL FOR PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 1 (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on May 12, 2021 authorizing the issuance of the Bonds and the pricing certificate of the pricing officer as authorized in the order (collectively, the "Order").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, and other documents authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

THE DISTRICT reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.



IT IS FURTHER OUR OPINION that, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Sufficiency Certificate of Specialized Public Finance, Inc., and assume compliance by the District with certain representations and covenants, regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the



Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

THIS PAGE LEFT INTENTIONALLY BLANK

APPENDIX C

Specimen Municipal Bond Insurance Policy

THIS PAGE LEFT INTENTIONALLY BLANK



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

THIS PAGE LEFT INTENTIONALLY BLANK



SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES