

OFFICIAL STATEMENT DATED SEPTEMBER 1, 2021

IN THE OPINION OF BOND COUNSEL (HEREIN DEFINED), BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS (HEREIN DEFINED) IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. BOND COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" FOR A DISCUSSION ON THE OPINION OF BOND COUNSEL.

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

NEW ISSUE – Book-Entry-Only

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

MCKINNEY MUNICIPAL UTILITY DISTRICT NO. 2 OF COLLIN COUNTY (A political subdivision of the State of Texas, located within Collin County)

\$4,205,000
Unlimited Tax Bonds
Series 2021

Dated: October 1, 2021

Due: September 1, as shown on the inside cover

The McKinney Municipal Utility District No. 2 of Collin County \$4,205,000 Unlimited Tax Bonds, Series 2021 (the "Bonds") are obligations solely of McKinney Municipal Utility District No. 2 of Collin County (the "District") and are not obligations of the State of Texas ("Texas"); Collin County, Texas; the City of McKinney, Texas; or any entity other than the District. Interest on the Bonds will accrue from October 1, 2021, and is payable on March 1, 2022, and on each September 1 and March 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 principal 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, New York, New York ("DTC"), 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 (herein defined). The initial paying agent for the Bonds is Regions Bank, an Alabama banking corporation (the "Paying Agent/Registrar").

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

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



The Bonds are the first series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system to serve the District (the "System"). Voters in the District have authorized a total of \$183,100,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system to serve the District (the "Road System"); \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and \$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District. After the issuance of the Bonds, the following amounts will remain authorized but unissued: \$178,895,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System; \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and \$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District. The Bonds, when issued, will constitute legal, valid, and binding obligations of the District, payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment."

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about October 5, 2021.

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

\$4,205,000 Unlimited Tax Bonds, Series 2021

\$1,285,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 581733 (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 581733 (b)
2023	\$ 120,000	4.500%	0.35%	AA0	2029 (c)	\$ 145,000	2.500%	1.250%	AG7
2024	125,000	4.500%	0.45%	AB8	2030 (c)	150,000	2.000%	1.500%	AH5
2025	130,000	4.500%	0.60%	AC6	2031 (c)	155,000	2.000%	1.700%	AJ1
2026	135,000	4.500%	0.75%	AD4	2032 (c)	160,000	2.000%	1.900%	AK8
–	–	–	–	–	2033 (c)	165,000	2.000%	2.050%	AL6

\$2,920,000 Term Bonds

\$280,000 Term Bonds Due September 1, 2028 (c)(d), Interest Rate: 4.500% (Price: \$121.300) (a), CUSIP No. 581733 AF9 (b)

\$345,000 Term Bonds Due September 1, 2035 (c)(d), Interest Rate: 2.000% (Price: \$97.614) (a), CUSIP No. 581733 AN2 (b)

\$365,000 Term Bonds Due September 1, 2037 (c)(d), Interest Rate: 2.125% (Price: \$97.678) (a), CUSIP No. 581733 AQ5 (b)

\$385,000 Term Bonds Due September 1, 2039 (c)(d), Interest Rate: 2.250% (Price: \$97.826) (a), CUSIP No. 581733 AS1 (b)

\$1,545,000 Term Bonds Due September 1, 2046 (c)(d), Interest Rate: 2.375% (Price: \$96.787) (a), CUSIP No. 581733 AZ5 (b)

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- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser (herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first optional redemption date. Accrued interest is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence LLC on behalf of the American Bankers Association, and are included solely for the convenience of the owners of the Bonds. None of the District, the Financial Advisor (herein defined), or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers.
- (c) The Bonds maturing on and after September 1, 2028, 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, 2027, or any date thereafter, at a price equal to the principal thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – Redemption of the Bonds – *Optional Redemption*.”
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under “THE BONDS – Redemption of the Bonds – *Mandatory Redemption*.”

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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APPENDIX C: SPECIMEN MUNICIPAL BOND INSURANCE POLICY

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover of this Official Statement at a price of 97.000000% of par plus accrued interest to date of delivery, resulting in a net effective interest rate of 2.597749%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by, and are the sole responsibility of, the Initial Purchaser.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. 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 Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole responsibility of the Initial Purchaser.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Initial Purchaser 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 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.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the SEC (herein defined) under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration 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.

Delivery of Official Statements

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

issued on or before the delivery date, but the Initial Purchaser shall pay for all other copies of this Official Statement or any supplement or amendment thereto.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$488.6 million, \$165.5 million and \$323.1 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

RATINGS

The Bonds are expected to receive an insured rating of "AA" from S&P solely in reliance upon the issuance of the Policy by BAM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

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

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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. The offering of the Bonds (herein defined) 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.

THE BONDS

The Issuer	McKinney Municipal Utility District No. 2 of Collin County (the "District"), a political subdivision of the State of Texas ("Texas"), is located within Collin County, Texas (the "County"). See "THE DISTRICT – General" and "THE DISTRICT – Description."
Description of the Bonds.....	<p>The McKinney Municipal Utility District No. 2 of Collin County \$4,205,000 Unlimited Tax Bonds, Series 2021 (the "Bonds") are dated October 1, 2021, and mature on September 1 in the years and amounts set forth on the inside cover of this Official Statement.</p> <p>Interest on the Bonds will accrue from October 1, 2021, and is payable on March 1, 2022, and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 of principal amount for any one maturity. See "THE BONDS – General."</p>
Redemption of the Bonds	<p>The Bonds that mature on or after September 1, 2028, are subject to redemption, in whole or from time to time in part, at the option of the District, on September 1, 2027, and any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Redemption of the Bonds – <i>Optional Redemption</i>."</p> <p>The Bonds that mature on September 1 in the years 2028, 2035, 2037, 2039 and 2046 are term bonds that are also subject to mandatory redemption as provided herein under "THE BONDS – Redemption of the Bonds – <i>Mandatory Redemption</i>."</p>
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of Texas; the County; the City of McKinney, Texas (the "City"); or any entity other than the District. See "THE BONDS – Source of Payment."
Payment Record.....	The Bonds are the first issuance of bonded indebtedness by the District.
Authority for Issuance.....	The Bonds are the first series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system to serve the District (the "System"). Voters in the District have authorized a total of \$183,100,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system to serve the District (the "Road System"); \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and

\$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District. After the issuance of the Bonds, the following amounts will remain authorized but unissued: \$178,895,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System; \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and \$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District.

The Bonds are issued pursuant to an order by the Texas Commission on Environmental Quality (the "TCEQ"); the Texas Constitution and general laws of Texas, including Chapters 49 and 54, Texas Water Code, as amended, and Chapter 8252 of the Special District Local Laws Code (the "Act"), as amended; an order authorizing issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"); and an election held within the boundaries of the District on November 6, 2018.

The Act granted the original district the power of division and, pursuant to an election held on May 5, 2018, the original district was divided into the District and McKinney Municipal Utility District No. 2A of Collin County.

Short-Term Debt.....	In connection with the Bonds, the District issued its \$2,272,000 Bond Anticipation Note, Series 2020 (the "BAN"), dated December 18, 2020. The BAN accrues interest at a rate of 2.00% per year (computed on the basis of a 360-day year and the actual days elapsed) and matures on December 17, 2021, unless called for redemption prior to maturity.
Outstanding Bonds	The Bonds are the first issuance of bonded indebtedness by the District. See "THE BONDS – Outstanding Bonds."
Use of Proceeds	Proceeds from the sale of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developer (herein defined) for a portion of the improvements and related costs shown under "USE AND DISTRIBUTION OF BOND PROCEEDS." Additionally, proceeds of the sale of the Bonds will be used to reimburse the Developer for the improvements and related costs that were not reimbursed by the BAN and to pay: master district (the "Master District") connection charges; developer interest; BAN interest; 12 months of capitalized interest; creation/organization/administrative expenses and other certain costs associated with the issuance of the Bonds and the BAN. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "qualified tax-exempt obligations." See "Qualified Tax-Exempt Obligations." See "TAX MATTERS – Qualified Tax-Exempt Obligations."
Municipal Bond Insurance	Build America Mutual Assurance Company ("BAM"). See "MUNICIPAL BOND INSURANCE."

Rating..... S&P Global Ratings (BAM Insured): “AA.” See “RATINGS.”

General & Bond Counsel..... Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas.

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

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

Engineer Kimley-Horn and Associates, Frisco, Texas.

THE DISTRICT

The Issuer The original district was created pursuant to an Act effective September 1, 2007, 80th Legislature, Regular Session, House Bill 3979 (codified at Chapter 8252, Texas Special District Local Laws Code), which granted the original district the power of division. Pursuant to an election held on May 5, 2018, the original district was divided into the District and McKinney Municipal Utility District No. 2A of Collin County. See “THE DISTRICT – General.”

Location..... The District is located entirely within the extraterritorial jurisdiction of the City, about five miles north of the City. The District is west of US 75 near the intersection of US 75 and FM 543. The District is part the master-planned community known as “Trinity Falls,” which is made up of approximately 1,980 acres. The District is composed of approximately 955 acres within Trinity Falls.

Developer and Principal Landowner..... The developer and principal owner of land within the District, and the rest of Trinity Falls, is Trinity Falls Holdings LP (the “Developer”). The principal limited partner of the Developer is McKinney Project Holdings LLC, and the general partner of the Developer is Johnson Trinity Falls GP LLC, which is an affiliate of The Johnson Development Corp. The Johnson Development Corp. has completed projects in multiple markets resulting in the development of nearly 45,000 acres of multi-use commercial parks, office buildings, retail centers, residential subdivisions, master-planned communities, and multi-family housing. See “DEVELOPER AND PRINCIPAL LANDOWNER.”

Homebuilder within the District Homes in the District are being marketed as a Del Webb community. Del Webb is the nation’s leading builder of active adult communities for those 55 and older. Del Webb is a national brand of PulteGroup, Inc. (NYSE: PHM). Pulte Homes of Texas, L.P. (a subsidiary of PulteGroup, Inc.), Drees Custom Homes, and Perry Homes are the only active homebuilders in the District.

Development within the District..... Land within the District has been developed as the single-family subdivisions of Trinity Falls Planning Unit 3, Phases 3B, 5A, 5B East and 5B West (aggregating approximately 60 acres and approximately 281 single-family lots). Trinity Falls Planning Unit 3, Phase 3D and Phase 5C are currently under development and Trinity Falls Planning Unit 7 South, Phase 1 – 6 are currently under development. As of August 1, 2021, the District consisted of approximately 156 completed homes (136 occupied, 14 unoccupied, and 6 models), 80 homes under construction, and 45 vacant developed lots. In addition to the single-family development, approximately three (3) acres within the District have been developed to include the McKinney Fire Station No. 10, approximately 141 acres have been developed as the parks, recreational and open spaces, and approximately 20 acres will be

developed for commercial use. Of the remaining undeveloped acreage within the District, approximately 631 acres remain undeveloped but developable and approximately 120 acres are undevelopable. See "DEVELOPMENT WITHIN THE DISTRICT."

Development Agreement with City The District and the Developer have entered into an agreement with the City to provide water and sewer service to the property within the District. The agreement gives the City exclusive jurisdiction over the subdivision and platting of the development, as well as the design, construction, and installation of public infrastructure built within the District. See "DEVELOPMENT AGREEMENT WITH CITY."

RISK FACTORS

THE BONDS ARE SUBJECT TO CERTAIN RISK FACTORS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "RISK FACTORS," BEFORE MAKING THEIR INVESTMENT DECISION.

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SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2021 Assessed Taxable Valuation	\$ 93,758,204	(a)
See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt:		
The Bonds	\$ 4,205,000	
Estimated Overlapping Debt (as of June 30, 2021)	<u>\$ 3,031,916</u>	(b)
Total Direct and Estimated Overlapping Debt	\$ 7,236,916	(b)
Direct Debt Ratios:		
As a Percentage of the 2021 Assessed Taxable Valuation	4.48	%
Direct and Estimated Overlapping Debt Ratios:		
As a Percentage of the 2021 Assessed Taxable Valuation	7.72	%
General Operating Fund (as of August 4, 2021)	\$ 460,196	
Capital Projects Fund (as of August 4, 2021)	\$ 7,563	
Debt Service Fund (as of delivery of the Bonds)	\$ 126,150	(c)
2020 District Tax Rate per \$100 of Assessed Taxable Valuation:		
Debt Service	\$ 0.00	
Maintenance & Operations	<u>\$ 1.05</u>	
Total	\$ 1.05	(d)
Average Annual Debt Service Requirement on the Bonds (2022-2046)	\$ 227,900	
Maximum Annual Debt Service Requirement on the Bonds (2045)	\$ 246,281	
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay the		
Average Annual Debt Service Requirement on the Bonds (2022-2046) at 95% Collections:		
Based on the 2021 Assessed Taxable Valuation (\$93,758,204)	\$ 0.26	
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay the		
Maximum Annual Debt Service Requirement on the Bonds (2045) at 95% Collections:		
Based on the 2021 Assessed Taxable Valuation (\$93,758,204)	\$ 0.28	
Single-Family Homes (Including 80 Under Construction) as of August 1, 2021	236	

- (a) Represents the assessed valuation of all taxable property within the District as of January 1, 2021, provided by the Appraisal District (herein defined). Such amount includes \$37,086, which represents 80% of the assessed valuation assigned to properties that remain under review by the Appraisal Review Board (herein defined). Such amount represents the estimated minimum amount of assessed valuation that will ultimately be approved by the Appraisal Review Board, upon which the District will levy its tax.
- (b) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (c) Upon closing of the Bonds, twelve (12) months of capitalized interest on the Bonds will be deposited in the District's Debt Service Fund. At the delivery of the Bonds, accrued interest from October 1, 2021, will be deposited into the debt service fund. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the debt service fund.
- (d) The District has authorized the publication of the intended total tax rate of \$1.05 per \$100 of assessed valuation for the 2021 tax year. Such rate is expected to be composed of a maintenance and operations tax rate of \$0.98 per \$100 of assessed valuation and a Debt Service tax rate of \$0.07 per \$100 of assessed valuation. See "TAX DATA – Tax Rate Distribution."

OFFICIAL STATEMENT

MCKINNEY MUNICIPAL UTILITY DISTRICT NO. 2 OF COLLIN COUNTY

(A political subdivision of the State of Texas, located within Collin County)

\$4,205,000
Unlimited Tax Bonds
Series 2021

OFFICIAL STATEMENT INTRODUCTION

This Official Statement provides certain information with respect to the issuance by McKinney Municipal Utility District No. 2 of Collin County (the "District") of its \$4,205,000 Unlimited Tax Bonds, Series 2021 (the "Bonds").

The Bonds are issued pursuant to an order by the Texas Commission on Environmental Quality (the "TCEQ"); the Texas Constitution and general laws of Texas, including Chapters 49 and 54, Texas Water Code, as amended, and Chapter 8252 of the Special District Local Laws Code (the "Act"), as amended; an order authorizing issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"); and an election held within the boundaries of the District on November 6, 2018.

The Act granted the original district the power of division and pursuant to an election held on May 5, 2018, the original district was divided into the District and McKinney Municipal Utility District No. 2A.

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 Bond Counsel (herein defined) at 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056 or during the offering period from the Financial Advisor (herein defined) at 1331 Lamar Street, Suite 1360, Houston, Texas 77010 upon payment of reasonable copying, mailing, and handling charges.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas ("Texas"); Collin County (the "County"); the City of McKinney (the "City"); or any other political subdivision and will be secured by a direct annual ad valorem property tax, without legal limitation as to rate or amount, on all taxable property located within the District (See "THE BONDS – Source of 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 the 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 accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See "RISK FACTORS – Registered Owners' Remedies."

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development within the District is directly related to the vitality of the residential housing industry in the County. New residential housing construction can be significantly affected by factors such as general economic activity, interest rates, credit availability, energy costs, construction costs, the level of unemployment and consumer demand. Decreased levels of such construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development in the District. See "DEVELOPMENT WITHIN THE DISTRICT."

Location and Access: The District is located entirely within the City's extraterritorial jurisdiction, about five miles north of the City. The District is west of US 75 near the intersection of US 75 and FM 543. See "THE DISTRICT."

Competition: The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. Many of the other developments are generally accessible by the same commuter routes and served by the same employment centers, school districts and retail establishments causing the developments to compete with one another for the same pool of buyers at similar price points and amenity levels.

The competitive position of the Developer in the sale of land, and the sale or leasing of residences is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Developer Under No Obligation to the District: The Developer has informed the District of its current plans to continue to develop land in the District for residential purposes. However, the Developer is not obligated to implement such plan on any particular schedule or at all. Thus, the furnishing of information related to the proposed development by the Developer should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer, or any other subsequent landowners to whom a party may sell all or a portion of their holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts and failure of the Developer to develop its land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developer, as a principal landowner in the District, (see "TAX DATA – Principal Taxpayers") for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of the Developer will be or what effect, if any, such conditions may have on its ability to pay taxes. See "DEVELOPER AND PRINCIPAL LANDOWNERS" and "DEVELOPMENT WITHIN THE DISTRICT."

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2021 assessed taxable valuation of property located within the District is \$93,758,204. See "TAX DATA."

After issuance of the Bonds, the maximum annual debt service requirement on the Bonds will be \$246,281 (2045) and the average annual debt service requirement on the Bonds will be \$227,900 (2022–2046). Assuming no increase to, nor decrease from, the 2021 assessed taxable valuation of \$93,758,204, a tax rate of \$0.28 per \$100 of assessed taxable valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement on the Bonds, and a tax rate of \$0.26 per \$100 of assessed taxable valuation at a 95% tax collection rate would be necessary to pay the average annual debt service requirement on the Bonds. The District has authorized the publication of the intended total tax rate of \$1.05 per \$100 of assessed valuation for the 2021 tax year. Such rate is expected to be composed of a maintenance and operations tax rate of \$0.98 per \$100 of assessed valuation and a Debt Service tax rate of \$0.07 per \$100 of assessed valuation.

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. See "TAXING PROCEDURES."

Limitation to Registered Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered owners of 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the 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 Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the U.S. 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 dismisses 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 (1) is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or has negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. 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 Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in determining 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 Owners' claims.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the U.S. 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.

A municipal utility district cannot be placed into bankruptcy involuntarily.

Changes in Tax Legislation

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

Marketability

The District has no agreement with any purchaser of the Bonds 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 of 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 Bonds are the first series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system to serve the District (the "System"). Voters in the District have authorized a total of \$183,100,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system to serve the District (the "Road System"); \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and \$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District. After the issuance of the Bonds, the following amounts will remain authorized but unissued: \$178,895,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System; \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and \$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District.

The Bonds, when issued, will constitute legal, valid, and binding obligations of the District, payable from the proceeds of two continuing direct annual ad valorem taxes, each without legal limitation as to rate or amount, levied against all taxable property within the District. The District also has the right to issue certain other additional bonds, special projects bonds, and other obligations, as described in the Bond Order. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

Pursuant to the Consent Agreement (herein defined), as amended, the District and McKinney Municipal Utility District No. 1 of Collin County ("MUD 1") shall not issue more than an aggregate \$318,000,000 principal amount of all bonds, plus a 3% annual increase of the amount of authorized but unissued bonds each July 1 (excluding any refunding bonds), unless specifically approved by the City. After the issuance of the Bonds, the District and MUD 1 will have \$280,520,470 remaining under such cap. MUD 1, when acting in the capacity as the coordinating district, is considered the master district (the "Master District"). See "CONSENT AGREEMENT WITH CITY."

Following issuance of the Bonds, the District will owe the Developer approximately \$74,806,521 for the reimbursable expenditures that the Developer has advanced to date for the purpose of acquiring or constructing the System. See "THE SYSTEM" and "DEVELOPMENT WITHIN THE DISTRICT."

Approval of the Bonds

As required by law, engineering plans, specifications, and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS." In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the safety of the Bonds as an investment, nor have such authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

Consolidation

Under Texas law, the District may be consolidated with other municipal utility districts, with the assets and liabilities of the consolidated districts belonging to the consolidated district. No representation is made that the District will ever consolidate with one or more other districts, although no consolidation is presently contemplated by the District.

Tax Collection Limitations

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

Environmental Regulations

Air Quality Issues: Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the District and surrounding area. Under the Clean Air Act ("CAA") Amendments of 1990, the Dallas-Fort Worth area ("DFW Area")—Collin, Dallas, Denton, Ellis, Johnson, Kaufman, Parker, Tarrant, and Wise Counties, and Rockwall County for the purposes of the 2008 Ozone Standards only—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the "1997 Ozone Standards"); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the "2008 Ozone Standard"), and the EPA's most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the "2015 Ozone Standard"). While Texas has been able to demonstrate steady progress and improvements in air quality in the DFW Area, the DFW Area remains subject to CAA nonattainment requirements.

The DFW Area is currently designated as a serious ozone nonattainment area under the 1997 Ozone Standards. On June 24, 2019, the EPA proposed approval of redesignation of the DFW to "attainment" for the 1997 Ozone Standards, which would terminate the serious nonattainment area "anti-backsliding" requirements and leave the DFW Area subject only to the nonattainment area requirements under the 2008 Ozone Standard and the 2015 Ozone Standard.

On August 23, 2019, the EPA published final notice reclassifying the DFW Area from "moderate" to "serious" under the 2008 Ozone Standard, effective September 23, 2019. As the DFW Area is now designated a "serious" nonattainment area, it must meet the attainment date of July 20, 2021 and the required attainment or implementation deadlines for reasonable further progress ("RFP Date"), including, for nitrogen oxides sources and for volatile organic compounds, the RFP Date of August 3, 2020. If the EPA ultimately determines that the DFW Area continues to fail to meet air quality standards based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The DFW Area is currently designated as a "marginal" nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2021.

In order to demonstrate progress toward attainment of the EPA's ozone standards, the TCEQ has established a state implementation plan ("SIP") for the DFW Area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the DFW Area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the DFW Area to reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the DFW Area's economic growth and development.

Water Supply & Discharge Issues: Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface

water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

Certain governmental entities regulate groundwater usage in the DFW Area. A municipal utility district or other type of special purpose district that (i) is located within the boundaries of such an entity that regulates groundwater usage, and (ii) relies on local groundwater as a source of water supply, may be subject to requirements and restrictions on the drilling of water wells and/or the production of groundwater that could affect both the engineering and economic feasibility of district water supply projects.

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and the EPA’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the CWA 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 United States Army Corps of Engineers (“USACE”) if operations of the District require that wetlands be filled, dredged, or otherwise altered.

In 2015, the EPA and USACE promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR was challenged in numerous jurisdictions, including the Southern District of Texas, causing significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction.

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal officially became final on December 23, 2019, but the repeal has itself become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j)

certain groundwater recharge, water reuse, and wastewater recycling structures; (k) waste treatment systems; and (l) all other waters or features not included in the definition of “waters of the United States.” The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

Due to existing and possible future litigation, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

Infectious Disease Outbreak – COVID-19

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting Texas business or any order or rule of a Texas 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 and reopening of Texas. These include, for example, the issuance on March 2, 2021, of Executive Order GA-34, which, among other things, removed any COVID-19-related operating limits for any business or other establishment and ended the Texas-wide mask mandate, effective March 10, 2021. The Governor’s order also maintains, in providing or obtaining services every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34 in part. Executive GA-36 prohibits governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine up to \$1,000 for noncompliance, subject to certain exceptions. Executive orders remain in place until they are 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.

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

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

While the potential impact of the Pandemic 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, including its underlying rating. The financial and operating data contained herein are the latest available but are as of dates and for periods partially prior to the economic impact of the Pandemic and measures instituted

to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

Potential Impact of Natural Disaster

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

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

Bond Insurance Risk Factors

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

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

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

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

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

Neither the District or Initial Purchaser (herein defined) has made independent investigation into the claims paying ability of the bond insurer and no assurance or representation regarding the financial strength or projected financial strength of the bond insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal of and interest on the Bonds and

the claims paying ability of the bond insurer, particularly over the life of the investment. See “MUNICIPAL BOND INSURANCE” for further information provided by the bond insurer and the Policy, which includes further instructions for obtaining current financial information concerning the bond insurer.

Specific Flood Type Risks

The District may be subject to the following flood risks:

Ponding (or Pluvial) Flood

Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

Riverine (or Fluvial) Flood

Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam, or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous, or drainage systems downstream.

The 2021 Legislative Session

The Texas Legislature session for its 87th Regular Session (the “Regular Session”), convened on January 12, 2021, and adjourned on May 31, 2021. The Governor has called two special sessions, the first commenced on July 8, 2021, and the second commenced on August 7, 2021, and he may call additional special sessions following the Regular Session, which may last no more than 30 days. During this time, the Texas Legislature may enact laws that materially change taxing procedures or statutory authority related thereto. The District can make no representation regarding the actions the Texas Legislature may take.

THE BONDS

General

The Bonds will bear interest from October 1, 2021, 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 of this Official Statement. Interest on the Bonds will be paid on March 1, 2022, and on each September 1 and March 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption and will be calculated on the basis of a 360 day year comprised of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in principal denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., nominee for The Depository Trust Company, New York, New York (“DTC”), 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 to DTC, which will be solely responsible for making such payment to the Beneficial Owners (herein defined). The initial paying agent for the Bonds is Regions Bank, an Alabama banking corporation (the “Paying Agent/Registrar”).

Redemption of the Bonds

Optional Redemption

The Bonds maturing on and after September 1, 2028, 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, 2027, and on any date thereafter, at a

redemption price equal to the principal amount thereof plus accrued interest from the most recent payment date to the date fixed for redemption.

The Paying Agent/Registrar shall give written notice of redemption, by registered mail, overnight delivery, or other comparably secure means, not less than 30 days prior to the redemption date, to each registered securities depository (and to each national information service that disseminates redemption notices) known to the Paying Agent/Registrar, but neither the failure to give such notice nor any defect therein shall affect the sufficiency of notice given to the registered owner as hereinabove stated. The Paying Agent/Registrar may provide written notice of redemption to DTC by facsimile.

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 of either respective series, the particular Bonds of such series to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity of either respective series are to be redeemed, the Paying Agent/Registrar is required to select the Bonds of such maturity to be redeemed by lot.

Mandatory Redemption

The Bonds maturing on September 1 in the years 2028, 2035, 2037, 2039 and 2046 (the "Term Bonds") are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to the scheduled maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption ("Mandatory Redemption Date"), and in the principal amount set forth in the following schedule:

\$280,000 Term Bonds Maturing on September 1, 2028

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2027	\$ 140,000
September 1, 2028 (Maturity)	\$ 140,000

\$345,000 Term Bonds Maturing on September 1, 2035

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2034	\$ 170,000
September 1, 2035 (Maturity)	\$ 175,000

\$365,000 Term Bonds Maturing on September 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2036	\$ 180,000
September 1, 2037 (Maturity)	\$ 185,000

\$385,000 Term Bonds Maturing on September 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2038	\$ 190,000
September 1, 2039 (Maturity)	\$ 195,000

\$1,545,000 Term Bonds Maturing on September 1, 2046

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2040	\$ 200,000
September 1, 2041	\$ 210,000
September 1, 2042	\$ 215,000
September 1, 2043	\$ 220,000
September 1, 2044	\$ 225,000
September 1, 2045	\$ 235,000
September 1, 2046 (Maturity)	\$ 240,000

The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the direction of the District, by the principal amount of any Term Bonds of such maturity which, at least thirty (30) days prior to a Mandatory Redemption Date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with monies in the applicable debt service fund for the System (herein defined) or the Road System (herein defined) 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 provision and not theretofore credited against a mandatory sinking fund redemption requirement.

Short-Term Debt

In connection with the Bonds, the District issued its \$2,272,000 Bond Anticipation Note, Series 2020 (the "BAN"), dated December 18, 2020. The BAN accrues interest at a rate of 2.00% per year (computed on the basis of a 360-day year and the actual days elapsed) and matures on December 17, 2021, unless called for redemption prior to maturity.

Outstanding Bonds

The Bonds are the first issuance of bonded indebtedness by the District.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System (herein defined) should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax, governmental charges, or other expenses required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal amount for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Record Date for Interest Payment

Interest on the Bonds will be paid to the registered owner appearing on the registration and transfer books of the Paying Agent/Registrar at the close of business on the "Record Date" (the 15th calendar day of the month next preceding each interest payment date) and shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid, to the address of the registered owner recorded in the registration and transfer books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the

Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the principal payment office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

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

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds, or on receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity to hold them harmless. Upon the issuance of a new bond the District may require payment of taxes, governmental charges and other expenses (including the fees and expenses of the Paying Agent/Registrar), bond printing and legal fees in connection with any such replacement.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar by the District. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as paying agent/registrar for the Bonds.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are assessed, levied, and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and cost of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest and principal of the Bonds and any parity bonds hereinafter issued. An unlimited tax rate is levied for the District's debt service. Funds in the debt service fund cannot be used to pay debt service on any bonds issued for the purpose of acquiring or constructing the Road System. Funds in the road debt service fund cannot be used to pay debt service on any bonds issued for the purpose of acquiring or constructing the System. The Bonds are obligations of the District and are not the obligations of Texas; Collin County, Texas (the "County"); the City of McKinney, Texas (the "City"); or any other political subdivision or any entity other than the District.

Payment Record

The Bonds are the first issuance of bonded indebtedness by the District.

Authority for Issuance

The Bonds are the first series of unlimited tax bonds issued by the District for the purpose of acquiring the System. Voters in the District have authorized a total of \$183,100,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of

acquiring or constructing the Road System; \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and \$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District. After the issuance of the Bonds, the following amounts will remain authorized but unissued: \$178,895,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System; \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and \$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District.

The Bonds are issued pursuant to an order by the TCEQ; the Texas Constitution and general laws of Texas, including Chapters 49 and 54, Texas Water Code, as amended, and the Act; the Bond Order; and an election held within the boundaries of the District on November 6, 2018.

The Act granted the original district the power of division and pursuant to an election held on May 5, 2018, the original district was divided into the District and McKinney Municipal Utility District No. 2A of Collin County.

Issuance of Additional Debt

After the issuance of the Bonds, the following amounts will remain authorized but unissued: \$178,895,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System; \$274,650,000 principal amount of unlimited tax refunding bonds for the System; \$140,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System; \$210,240,000 principal amount of unlimited tax refunding bonds for the Road System; \$32,470,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing firefighting facilities to serve the District; and \$48,705,000 principal amount of unlimited tax refunding bonds for firefighting facilities to serve the District. Additional bonds may be authorized by the voters in the District and the Board.

Pursuant to the Consent Agreement (herein defined), as amended, the District and MUD 1 shall not issue more than an aggregate \$318,000,000 principal amount of all bonds, plus a 3% annual increase of the amount of authorized but unissued bonds each July 1 (excluding any refunding bonds), unless specifically approved by the City. After the issuance of the Bonds, the District and MUD 1 will have \$280,520,470 remaining under such cap. See "CONSENT AGREEMENT WITH CITY."

Following issuance of the Bonds, the District will owe the Developer (herein defined) approximately \$74,806,521 for the reimbursable expenditures that the Developer has advanced to date for the purpose of acquiring or constructing the System. See "THE SYSTEM" and "DEVELOPMENT WITHIN THE DISTRICT."

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the Engineer (herein defined), following the issuance of the Bonds, the District will have adequate authorized but unissued bonds to repay the Developer the remaining amounts owed for the existing District facilities, including the System, and to finance the Road System and extension thereof to serve the remaining undeveloped land within the District. See "DEVELOPMENT WITHIN THE DISTRICT," "THE SYSTEM," and "RISK FACTORS – Future Debt."

Registered Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners (herein defined) 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 interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. See "RISK FACTORS – Limitation to Registered Owners' Remedies."

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under

current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (the "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 (the "Indirect Participants," and together with the Direct Participants, the "Direct and Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Direct and Indirect Participants are on file with the SEC. 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 holder of ownership interest of each actual purchase of each Bond (the "Beneficial Owners") 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-Only System is discontinued.

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

other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

The information in the section concerning DTC and the Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developer (herein defined) for a portion of the improvements and related costs shown below. Additionally, proceeds of the sale of the Bonds will be used to reimburse the Developer for the improvements and related costs that were not reimbursed by the BAN and to pay: master district (the "Master District") connection charges; developer interest; BAN interest; 12 months of capitalized interest; creation/organization/administrative expenses and other certain costs associated with the issuance of the Bonds and the BAN.

Non-construction costs are based upon either contract amounts or cost estimates by the Engineer and the Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the Auditor (herein defined).

<u>Construction Costs</u>	<u>District's Share</u>
A. Developer Contribution Items	
None	\$ -
B. District Items – None	
1. Master District Connection Charges	\$ 2,446,376
TOTAL CONSTRUCTION COSTS	<u>\$ 2,446,376</u>
<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 120,125
B. Fiscal Agent Fees	84,100
C. Interest	
a. Developer Interest	522,235
b. Capitalized Interest (12 months)	111,788
c. BAN Interest	36,731
D. Bond Discount	126,150
E. Bond Issuance Expenses	38,094
F. BAN Issuance Expenses	68,431
G. Market Study	9,000
H. Bond Application Report Costs	50,000
I. Creation/Organization/Administrative Expenses	399,406
J. Operating Advances	91,700
K. Attorney General Fee (0.10%)	4,205
L. TCEQ Bond Issuance Fee (0.25%)	10,513
M. Contingency (a)	86,147
TOTAL NON-CONSTRUCTION COSTS	<u>\$ 1,758,624</u>
TOTAL BOND ISSUE REQUIREMENT (b)	<u>\$ 4,205,000</u>

(a) Represents the difference between the estimated and actual amounts of Capitalized Interest, BAN Interest and Bond Discount.

(b) Total may not sum due to rounding.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities; however, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

General

The Bonds are issued pursuant to an order by the TCEQ; the Texas Constitution and general laws of Texas, including Chapters 49 and 54, Texas Water Code, as amended, and the Act; the Bond Order; and an election held within the boundaries of the District on November 6, 2018.

The Act granted the original district the power of division and pursuant to an election held on May 5, 2018, the original district was divided into the District and McKinney Municipal Utility District No. 2A of Collin County.

The District is empowered, among other things, to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District is also empowered to finance certain road improvements that must meet criteria of the County and the City. The District may also provide solid waste collection and disposal service and operate, maintain, and construct recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the district's voters and the TCEQ. The District has obtained approval of its voter and the TCEQ to operate a fire department but does not currently do so.

Description

The District, a political subdivision of Texas, is located in the County. The District is located entirely within the extraterritorial jurisdiction of the City, about five miles north of the City. The District is west of US 75 near the intersection of US 75 and FM 543. The District is part the master-planned community known as "Trinity Falls," which is made up of approximately 1,980 acres. The District is composed of approximately 955 acres within Trinity Falls.

Management of the District

- Board of Directors -

Effective June 13, 2019, the District adopted single-member precincts to be used for future scheduled directors' elections. Each director is elected by electors in single-member districts. The District is governed by a board, consisting of five directors, which has control over and management and supervision of all affairs of the District. Directors serve staggered four-year terms, with elections held in May of each even numbered year. Russell Thomsen and Robert Philo reside in the District, and Mark Yeager, Ian McDuffee and James Case own property in the District. The present members and officers of the Board are listed below:

Name	Position	Term Expires May	Precinct
Russell Thomsen	President	2024	Pct 4
Mark Yeager	Vice President	2022	Pct 3
Robert Philo	Secretary	2022	Pct 5
Ian McDuffee	Assistant Secretary	2022	Pct 2
James Case	Assistant Secretary	2024	Pct 1

- Consultants -

Tax Assessor/Collector: The District's tax assessor and collector is Utility Tax Service, LLC (the "Tax Assessor/Collector"). The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Collin Central Appraisal District (the "Appraisal District") and bills and collects such levy from taxpayers in the District.

Bookkeeper: The District's bookkeeper is L & S District Services, LLC.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. A copy of the District's audit prepared by McGrath & Co., PLLC (the "Auditor") for the fiscal year ended March 31, 2021, is included as "APPENDIX A."

Engineer: The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Kimley-Horn and Associates, Inc. (the "Engineer").

Bond & General Counsel: The District has engaged Sanford Kuhl Hagan Kugle Parker Kahn LLP as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. The fees of Bond Counsel are contingent upon the sale and delivery of the Bonds. Sanford Kuhl Hagan Kugle Parker Kahn LLP also serves as the District's general counsel.

Disclosure Counsel: The District has engaged Orrick, Herrington & Sutcliffe LLP as disclosure counsel ("Disclosure Counsel") in connection with the issuance of the Bonds. The fees of Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Financial Advisor: The District has engaged Robert W. Baird & Co. Incorporated as financial advisor (the "Financial Advisor") to the District. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor has participated in the preparation of this Official Statement; however, the Financial Advisor is not obligated to undertake, and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement that has been supplied or provided by third parties.

DEVELOPMENT AGREEMENT WITH CITY

The City provides water supply and wastewater services to the District, pursuant to that certain 2012 Development Agreement between the Developer and the City, effective December 4, 2012, as amended by that certain First Amendment to 2012 Development Agreement, effective February 27, 2014, that certain Second Amendment to 2012 Development Agreement, effective November 2, 2016, and that certain Third Amendment to 2012 Development Agreement, effective October 27, 2017 (collectively, the "Development Agreement"). Certain provisions of the Development Agreement concerning the provision of water and/or sewer service to the property within the District have been assigned from the Developer to the District.

Pursuant to the Development Agreement, the City shall have and exercise exclusive jurisdiction over the subdivision and platting of the property within the District and the design, construction, installation, and inspection of water, sewer, drainage, roadway, and other public infrastructure (the "Public Infrastructure") to serve the property within the District. The Developer and/or MUD 1 or the District, as appropriate, are responsible for designing, acquiring and constructing for the benefit of, and for ultimate conveyance to the City, the water and sewer Public Infrastructure. The City agrees to provide water supply services and wastewater treatment services to the District. The District, at its sole expense, shall provide, or cause to be provided, police and fire services, within the District. EMS service shall be provided by the City to the property within the District.

Police and Fire Services

Prior to the date upon which any developer, owner, or builder submits an application for the issuance of a certificate of occupancy for the 934th Dwelling Unit (as defined in the Development Agreement), the District, at its sole expense, shall contract with the City or the County for additional law enforcement officers (i.e., in addition to the law enforcement services provided by the County) as provided below.

<u>Number of Dwelling Unit Certificates of Occupancy</u>	<u>Total Additional Law Enforcement Officers</u>
934 – 1,565	2
1,566 – 2,239	3
2,240 – 2,933	4
2,934 – 3,617	5
3,618 – greater	6

The District and MUD 1 have entered into a contract with the County to provide additional law enforcement. The City has completed the construction and equipping of the Fire Station Facility (as defined in the Development Agreement) to serve the District and other surrounding areas. The Developer shared in the soft

costs and capital costs of the Fire Station Facility's improvements and equipment (the "Developer's Share") in the amount of \$7,650,000. In addition to the obligation to pay the Developer's Share above, the District and MUD 1 have paid an amount equal to 70% of one year's aggregate cost of the employee compensation and training costs for 18 newly hired personnel necessitated by the opening of the Fire Station Facility, based upon the annual, budgeted costs of a firefighter position (and training). Thereafter, and on an annual basis and beginning on the first anniversary of the first day of operations at the Fire Station Facility, the Developer, the District, or MUD 1 shall make payments to the City for a percentage of all personnel, equipment, building maintenance, and other costs to provide Fire Services, save and except the costs of providing EMS services from the Fire Station Facility, based upon the geographic areas served by the Fire Station Facility. It is currently estimated that this percentage will be approximately 40%.

The Public Infrastructure

The Development Agreement provides that the Public Infrastructure will be designed and constructed in accordance with the requirements and criteria of the TCEQ, the City, and all other federal, state, and local governmental authorities having jurisdiction over the construction of the Public Infrastructure. The City shall provide retail water and sewer service to the property within the District. Retail water and sewer customers within the District shall pay the applicable water and sewer rates for customers outside the corporate limits of the City.

Water Public Infrastructure: At no cost to the Developer or the District, the City shall (1) not sooner than the date of the request for the issuance of a building permit for the 1,800th Dwelling Unit or later than the issuance of a building permit for the 2,200th Dwelling Unit, design, acquire easements for, construct, cause to be dedicated to and accepted by the City, and make operational, the "Bloomdale Pump Station" and the water lines required to deliver an adequate supply of water from the Bloomdale Pump Station to the north side of Bloomdale Road as shown on the City's Water Master Plan; (2) use its best efforts to enter into necessary contracts and agreements to deliver adequate water supply to the City system to the extent necessary to provide uninterrupted, equitable and uniform retail water service to the District; and (3) design, acquire easements for, construct, cause to be dedicated to and accepted by the City, and make operational all upgrades and expansions to the City's off-property water Public Infrastructure to the extent necessary to provide uninterrupted, equitable and uniform retail water service to the District.

At no cost to the City, the Developer will direct MUD 1 and the District to cause the following to occur with respect to the water Public Infrastructure: (1) prior to the issuance of a building permit for the 450th Dwelling Unit, design, acquire easements for, construct, and tender for dedication to and acceptance by the City, the extension of the existing 36-inch water line located in Hardin Boulevard north of Wilmeth Drive (the "West Feed") to the north from its current dead end along the alignment of future Hardin Boulevard to FM 543, then east along FM 543; (2) prior to the issuance of a building permit for the 525th Dwelling Unit, design, acquire easements for, construct, and tender for dedication to and acceptance by the City, the elevated water storage facility designated as the "Trinity Elevated Storage Tank" on the City's current Water Master Plan; and (3) design, acquire easements for, construct, and tender for dedication to and acceptance by the City, those additional in-District water Public Infrastructure items described on the City's Water Master Plan or as otherwise approved by the City's engineer, said additional water Public Infrastructure to be constructed prior to or at the time of need, depending on development phasing, or as may be necessitated due to concurrent construction of other improvements, such as roadways.

The West Feed and the Trinity Elevated Storage Tank have been completed and accepted by the City.

Sewer Public Infrastructure: The City shall design, acquire easements for, construct, and cause to be dedicated to and accepted by the City, all upgrades and expansions to the City's off-property sewer Public Infrastructure to the extent necessary to provide uninterrupted, equitable and uniform sanitary sewer service to the District.

At no cost to the City, the Developer will direct MUD 1 or the District to cause the following to occur with respect to the sewer Public Infrastructure: (1) prior to the issuance of the first building permit for any Dwelling Unit, design, acquire easements for, construct, and tender for dedication to and acceptance by the City, the sewer facility designated as "Future Line # 16" on the City's current Wastewater Master Plan (the "Off-Site Sewer Line") from the south boundary of the property to the existing trunk sewer located near the confluence of East Fork Trinity River and Honey Creek; and (2) design, acquire easements for, construct, and tender for dedication

to and acceptance by the City in accordance with the Subdivision Ordinance, those additional sewer Public Infrastructure items required to serve the District, as typically required elsewhere in the City.

The Off-Site Sewer Line is complete and has been accepted by the City.

Roadway Public Infrastructure: Building permits shall be issued by the City for up to 655 Dwelling Units based on the roadway Public Infrastructure in existence as of the effective date of the Development Agreement and no additional off-property roadway Public Infrastructure shall be required prior to the 655th building permit.

Pursuant to the terms of the Development Agreement, the City has elected to contribute \$3,600,000 for the construction by the Developer of Farm-to-Market Road 543 ("FM 543")/Trinity Falls Parkway as a four-lane, divided thoroughfare. The Developer shall diligently pursue completion of FM 543/Trinity Falls Parkway in conformance with City standards prior to the issuance of the 1,100th building permit, after which any building permit issuance shall cease until completion; and upon completion and approval by the City of FM 543/Trinity Falls Parkway, building permits for up to an aggregate total of 1,760 Dwelling Units may be issued. The expansion of FM 543/Trinity Falls Parkway to a four-lane divided thoroughfare was completed in November of 2020.

Additional building permits beyond 1,760 through build-out of the District shall be issued when either of the following conditions is satisfied: (1) FM 543/Trinity Falls Parkway as a four-lane, divided thoroughfare that complies with City standards has been completed and approved and at least two lanes of Melissa Road that comply with City of Melissa standards have been completed and approved; or (2) FM 543/Trinity Falls Parkway as a four-lane, divided thoroughfare that complies with City standards has been completed and approved and at least two lanes of Hardin Boulevard that comply with City standards have been completed and approved.

Ownership, Operation, and Maintenance of the Public Infrastructure

If dedicated to and accepted by the City, the City shall at all times maintain the Public Infrastructure, or cause such Public Infrastructure to be maintained, in good condition and working order in compliance with all applicable laws and ordinances and all applicable regulations, rules, policies, standards, and orders of any governmental entity with jurisdiction over same. To the extent the City accepts and utilizes the water and sewer Public Infrastructure, the City shall operate the water and sewer Public Infrastructure serving the District and will use the Public Infrastructure to provide service to all customers within the District. To the extent none of the City, the County, or Texas accepts roadway Public Infrastructure within the District, then such roadway Public Infrastructure shall be maintained to standard City maintenance standards by the District. To the extent roadway Public Infrastructure outside the District is not accepted by the applicable jurisdiction therefor, the District shall have the right, but not the obligation, to maintain such roadway Public Infrastructure. To the extent none of the City, the County, or Texas accepts drainage Public Infrastructure within the District, such drainage Public Infrastructure shall be maintained by the District.

CONSENT AGREEMENT WITH CITY

In connection with the creation of the District, the City, the Developer, and the District entered into a "2012 Agreement Concerning the Creation and Operation of McKinney Municipal Utility District No. 2 of Collin County," as amended by that certain First Amendment to 2012 Agreement Concerning Creation and Operation of McKinney Municipal Utility District No. 2 of Collin County dated July 20, 2016, and that certain Second Amendment to 2012 Agreement Concerning Creation and Operation of McKinney Municipal Utility District No. 2 of Collin County dated October 21, 2017 (collectively, the "Consent Agreement"). In the Consent Agreement, which amends and restates a similar consent agreement with a prior owner of the property upon which the District was formed, the City consented to: the creation of the District; the District undertaking certain road projects within the District; the calling of an election to create the District and carry out its operations; and the division of the District into two separate municipal utility districts.

In addition, the City agreed that the City would not annex the District any earlier than the first to occur of: (1) completion of the "Major Items" listed below, the completion of the construction of the infrastructure to serve full development of the property and the issuance by the District of bonds to reimburse the full cost of the "Major Items" and all water, wastewater, drainage, roadway and other infrastructure improvements installed or constructed to serve the development, whether located within or outside the development; (2) 15 years after

the first record plat is recorded within the District; or (3) the dissolution of the District (other than as a result of annexation by the City).

The “Major Items” to be completed include: (1) the purchase, construction and improvement of land, improvements and facilities necessary to: (a) provide water supply for the District for municipal, domestic, and commercial uses; (b) collect, transport, and dispose of all domestic, commercial, industrial or communal wastes from the District; (c) gather, conduct and control local storm water; and (d) undertake the road project set forth in the Consent Agreement; (2) the payment of organizational expenses, initial operating expenses, cost of insurance, interest during construction and capitalized interest; (3) the establishment, operation and maintenance of a police and fire department to perform emergency services within the District; (4) the purchase, construction and improvement of land, facilities and equipment related to recreational facilities; and (5) the refunding of any outstanding Bonds of the District for a debt service savings.

Furthermore, in consideration for the City’s consent to create the District and issue unlimited tax bonds for road facilities, the District agrees that it and MUD 1 shall not issue more than an aggregate \$318,000,000 principal amount of bonds, plus a 3% annual increase on the amount of authorized but unissued bonds on each July 1, beginning July 17, 2017 (excluding refunding bonds), unless specifically approved by the City. After the issuance of the Bonds, the District and MUD 1 will have \$280,520,470 remaining under such cap.

STRATEGIC PARTNERSHIP AGREEMENT WITH THE CITY

The City and the District entered into a “Strategic Partnership Agreement” (the “Strategic Partnership Agreement”). In the Strategic Partnership Agreement, the City annexed the District for the sole and exclusive purpose of imposing and collecting sales and use taxes authorized by Chapter 321 of the Texas Tax Code, including Type A and Type B economic development corporation sales tax, within such area. The City is not required to provide any additional municipal services to Trinity Falls pursuant to the Strategic Partnership Agreement. The City also agreed to pay to the District an amount equal to 25% of its portion (\$0.01) of the sales and use tax revenue collected within Trinity Falls, other than the Type A and Type B sales taxes collected by the City. No portion of the Type A and Type B sales taxes collected are paid to the District. The District is limited in its use of the sales and use taxes revenue to the following purposes and in the following priority: (1) to reimburse owners and developers of land within Trinity Falls for the following costs to the extent eligible for reimbursement through the issuance of District bonds: (a) the cost to design and construct any improvements, whether located within or outside Trinity Falls, that serve Trinity Falls (“Eligible Infrastructure Reimbursements”), (b) the cost to manage and administer the District, and (c) the cost of police, fire and EMS services provided within Trinity Falls; (2) for the deposit into, and disbursement from, an escrow for reimbursement of future Eligible Infrastructure Reimbursements; (3) for retirement of District bonds; and (4) for any lawful purpose.

DEVELOPER AND PRINCIPAL LANDOWNER

The Role of a Developer

In general, the activities of a developer in a municipal utility district, such as the District, include purchasing the land within the district, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone and electric service) and selling improved lots and commercial reserves to builders, developer, or other third parties. In certain instances, the developer will be required to pay up to 30% of the cost of constructing certain of the water, wastewater and drainage facilities in a municipal utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of its property within a municipal utility district may have a profound effect on the security of the bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer’s right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

Developer and Principal Landowner

The developer and principal owner of land within the District, and the rest of Trinity Falls, is Trinity Falls Holdings LP (the “Developer”). The principal limited partner of the Developer is McKinney Project Holdings LLC, and the general partner of the Developer is Johnson Trinity Falls GP LLC, which is an affiliate of The Johnson Development Corp.

Development Management

Development of Trinity Falls is managed by The Johnson Development Corp. Larry D. Johnson, President of The Johnson Development Corp., has over 40 years of real estate experience, resulting in the development of nearly 45,000 acres of multi-use commercial parks, office buildings, retail centers, residential subdivisions, master planned golf course communities, and multi-family housing.

The Johnson Development Corp. has developed master-planned communities in multiple and other markets. In addition to Trinity Falls, The Johnson Development Corp. or its principals are involved in the development of the following projects: Viridian, a 2,000-acre residential project in the City of Arlington, Texas; Sienna, a 10,000-acre, mixed-use project southwest of the City of Houston, Texas; Riverstone, a 3,700-acre, mixed-use project southwest of the City of Houston, Texas; Imperial, a 700-acre, master-planned community in the City of Sugar Land, Texas; Towne Lake and Towne Lake Hills, a 3,700-acre residential project in the City of Atlanta, Georgia area; Lake Arrowhead, a 6,000-acre residential project in the City of Atlanta, Georgia area; and Woodforest, a 3,200-acre project located north of the City of Houston, Texas.

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

Development Financing

The Developer has financed the purchase and development of land within the District through a loan agreement dated July 18, 2016, with U.S. Bank National Association. As of June 1, 2021, approximately \$35,055,000 of the loan’s maximum principal amount of \$50,000,000 remained outstanding. According to the Developer, it is in compliance with all material terms of such loan.

Lot-Sales Contracts

The lots in Trinity Falls Planning Unit 3 (“PU3”) and located within the District are being sold through lot sales contracts with Del Webb, Drees Custom Homes and Perry Homes. These homebuilders have contracted to purchase 319 lots within PU3. The first 103 lots were delivered in March of 2019 and the homebuilders are currently in compliance with their respective lot contracts.

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DEVELOPMENT WITHIN THE DISTRICT

Current Status of Development

Land within the District has been developed as the single-family subdivisions of Trinity Falls Planning Unit 3, Phases 5A, 5B East and 5B West (aggregating approximately 60 acres and approximately 281 single-family lots). Trinity Falls Planning Unit 3, Phase 3D and Phase 5C are currently under development and Trinity Falls Planning Unit 7 South, Phase 1 – 6 are currently under development.

As of August 1, 2021, the District consisted of approximately 156 completed homes (136 occupied, 14 unoccupied, and 6 models), 80 homes under construction, and 45 vacant developed lots. In addition to the single-family development, approximately three (3) acres within the District have been developed to include the McKinney Fire Station No. 10, approximately 141 acres have been developed as the parks, recreational and open spaces, and approximately 20 acres will be developed for commercial use. Of the remaining undeveloped acreage within the District, approximately 631 acres remain undeveloped but developable and approximately 120 acres are undevelopable.

The following sets out the status of development of each phase of each single-family subdivision within the District as of August 1, 2021:

Trinity Falls	Developed Acreage (a)	Total Lots	Homes Completed	Homes Under Construction	Vacant Developed Lots
Planning Unit 3					
Phase 3B	00.99	2	1	1	0
Phase 5A	21.90	95	80	0	15
Phase 5B East	27.10	140	51	64	25
Phase 5B West	11.70	44	24	15	5
Approximate Total	61.69	281	156	80	45
McKinney Fire Station 10	3.02				
Parks, Recreational and Open space	141.81				
Undeveloped, but Developable	629.46				
Undevelopable	119.02				
Total	955.00				

(a) Approximate acreage.

Homebuilders

Homes in the District are being marketed as a Del Webb community. Del Webb is the nation's leading builder of active adult communities for those 55 and older. Del Webb is a national brand of PulteGroup, Inc. (NYSE: PHM). Pulte Homes of Texas, L.P. (a subsidiary of PulteGroup, Inc.), Drees Custom Homes, and Perry Homes are the only active homebuilders in the District.

Homes are being marketed from approximately \$295,000 to over \$450,000 and range in size from approximately 1,300 square feet to over 2,600 square feet.

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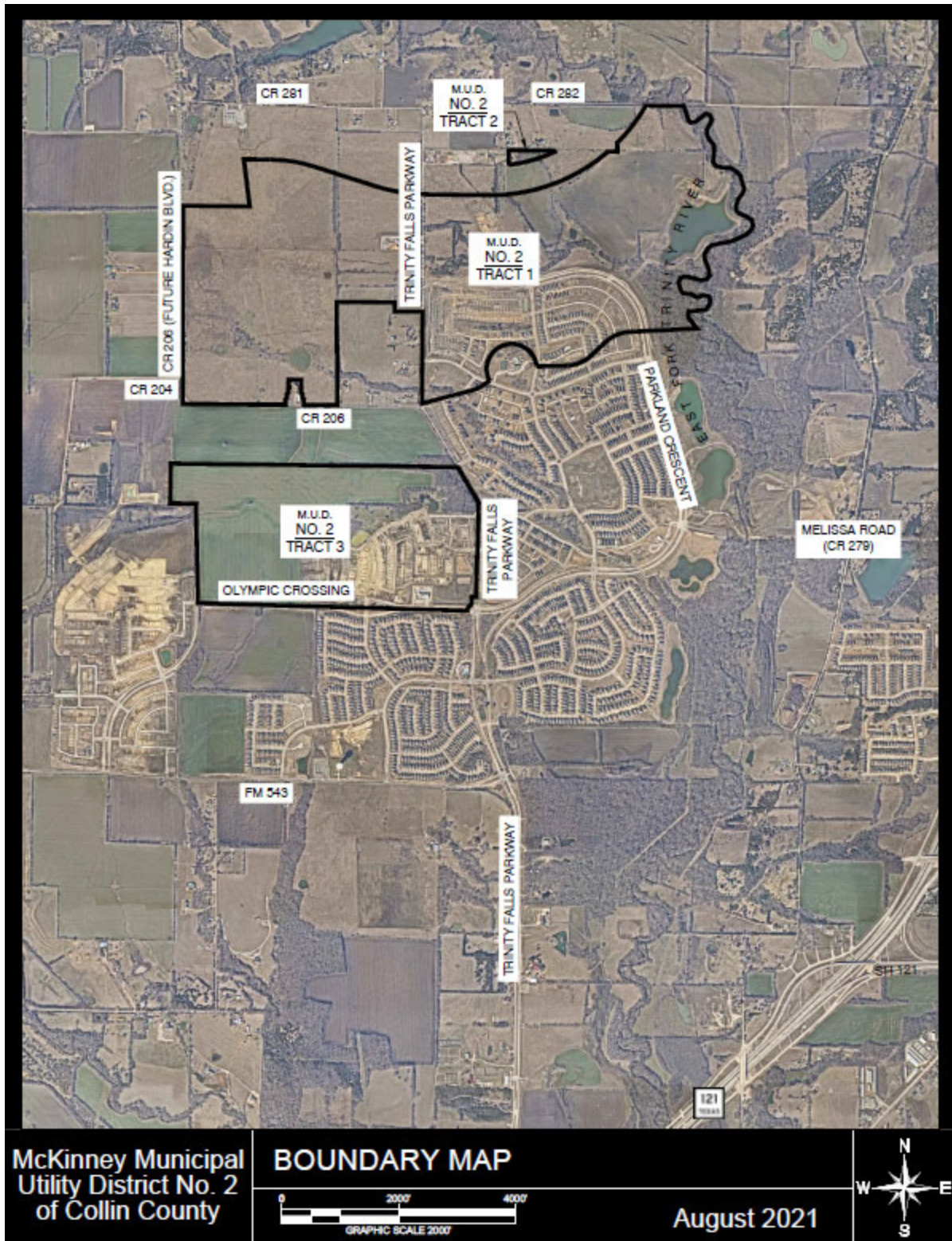
PHOTOGRAPHS WITHIN THE DISTRICT
(August, 2021)



PHOTOGRAPHS WITHIN THE DISTRICT
(August, 2021)



AERIAL PHOTOGRAPH OF THE DISTRICT



TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District's assessed taxable valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy, and collect ad valorem taxes, in an amount not to exceed \$1.20 per \$100 of assessed taxable valuation for maintenance and operations purposes. The Board levied a total 2020 Tax Rate of \$1.05 per \$100 of assessed valuation comprised of: a maintenance and operations tax rate of \$1.05 per \$100 of assessed taxable valuation. The District has authorized the publication of the intended total tax rate of \$1.05 per \$100 of assessed valuation for the 2021 tax year. Such rate is expected to be composed of a maintenance and operations tax rate of \$0.98 per \$100 of assessed valuation and a Debt Service tax rate of \$0.07 per \$100 of assessed valuation.

Tax Rate Limitation

Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance and Operations:	\$1.20 per \$100 of assessed taxable valuation.

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all of any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal and interest on the Bonds. The District anticipates levying its first debt service tax in 2021. Funds in the debt service fund cannot be used to pay debt service on any bonds issued for the purpose of acquiring or constructing the Road System. Funds in the future Road System debt service fund cannot be used to pay debt service on the Bonds, or any other bonds issued for the purpose of acquiring or constructing the System.

Maintenance and Operations Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance and operations of the District's improvements, if such maintenance and operations tax is authorized by vote of the District's electors. At an election held within the District on November 6, 2018, the Board was authorized to levy such a maintenance and operations tax in an amount not to exceed \$1.20 per of \$100 assessed taxable valuation. The District levied its first maintenance and operations tax in 2019. For the 2020 tax year, the Board levied a maintenance and operations tax rate of \$1.05 per of \$100 assessed taxable valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on: (i) any future outstanding bonds and the Bonds and (ii) the future outstanding road bonds.

Tax Exemption

As discussed in "TAXING PROCEDURES," certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation.

Additional Penalties

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

Historical Tax Collections

The following table illustrates the collection history of the District for the 2019–2020 tax years:

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Percent of Collections Current Year	Current Year Ending 09/30	Percent of Collections 06/30/2021
2019	\$ 43,141,361	\$ 1.050	\$ 452,984	100.00 %	2020	100.00 %
2020	65,940,319	1.050	692,373	99.84 (b)	2021	99.84 (b)

(a) Total tax rate per \$100 of assessed taxable valuation for each respective tax year.

(b) In process of collections.

Tax Rate Distribution

The following table illustrates the components of the tax levy of the District for the 2019–2020 tax years:

	2020 (b)	2019
Debt Service (a)	\$ 0.000	\$ 0.000
Maintenance & Operations	<u>1.050</u>	<u>1.050</u>
Total	\$ 1.050	\$ 1.050

(a) The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the System and for payment of debt service on bonds issued by the District for the Road System; both such taxes are unlimited as to rate or amount. The District anticipated levying a debt service tax for the 2021 tax year. See "THE BONDS – Authority for Issuance."

(b) The District has authorized the publication of the intended total tax rate of \$1.05 per \$100 of assessed valuation for the 2021 tax year. Such rate is expected to be composed of a maintenance and operations tax rate of \$0.98 per \$100 of assessed valuation and a Debt Service tax rate of \$0.07 per \$100 of assessed valuation.

Analysis of Tax Base

The following table illustrates the District's total assessed taxable value by property type in the 2018–2021 tax years:

Type of Property	2021 Assessed Taxable Valuation (a)	2020 Assessed Taxable Valuation	2019 Assessed Taxable Valuation	2018 Assessed Taxable Valuation
Land	\$ 69,269,920	\$ 53,619,439	\$ 43,914,456	\$ 21,340,731
Improvements	28,308,988	18,781,210	190,121	179,163
Personal Property	532,511	500	0	0
Exemptions	<u>(4,390,301)</u>	<u>(6,460,830)</u>	<u>(963,216)</u>	<u>(660,689)</u>
Total	\$ 93,721,118	\$ 65,940,319	\$ 43,141,361	\$ 20,859,205

(a) Represents the assessed valuation of all taxable property in the District as of January 1, 2021, provided by the Appraisal District. Such amounts do not include \$37,086, which represents 80% of the assessed valuation assigned to properties that remain under review by the Appraisal Review Board (herein defined). See "TAX DATA" and "TAXING PROCEDURES."

Principal Taxpayers

The following table illustrates the principal taxpayers and their respective types of property and assessed taxable values within the District as of the Appraisal District's original certification of its appraisal rolls for the 2021 tax year. Totals may not sum due to rounding.

Taxpayer	Type of Property	2021 Assessed Taxable Value	Percent of Tax Roll
Trinity Falls Holdings LP (a)	Land & Improvements	\$ 45,830,428	48.90%
Pulte Homes of Texas LP	Land & Improvements	14,518,671	15.49
Homeowner	Land & Improvements	448,252	0.48
Homeowner	Land & Improvements	447,163	0.48
Gould Family Trust	Land	446,927	0.48
Homeowner	Land & Improvements	446,927	0.48
Homeowner	Land & Improvements	443,669	0.47
Homeowner	Land & Improvements	439,376	0.47
Homeowner	Land & Improvements	438,580	0.47
Pearson Merlyn N Living Trust	Land	435,112	0.46
Total		<u>\$ 63,895,105</u>	68.18 %

(a) See "DEVELOPER AND PRINCIPAL LANDOWNER."

Tax Rate Calculations

Debt Service: The tax rate calculations set forth immediately below are presented to indicate the tax rates per \$100 of assessed taxable valuation that would be required to meet certain debt service requirements on the Bonds if no growth in the District occurs beyond the 2021 assessed taxable valuation (\$93,758,204). The following further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirement (2022-2046)	\$ 227,900
Tax Rate of \$0.26 on the 2021 Assessed Taxable Valuation Produces.....	\$ 231,583
Maximum Annual Debt Service Requirement (2045).....	\$ 246,281
Tax Rate of \$0.28 on the 2021 Assessed Taxable Valuation Produces.....	\$ 249,397

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Estimated Overlapping Taxes

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

Set forth below is a compilation of all 2020 taxes levied by such jurisdictions per \$100 of assessed taxable valuation. The table below does not include any future debt service tax rate that may be levied as a result of the issuance of the Bonds (see "TAX DATA – Debt Service Tax"). Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

Taxing Jurisdiction	2020 Tax Rate Per \$100 of Assessed Taxable Valuation
The District	\$ 1.050000 (a)
The County	0.172531
Collin County Community College District	0.081222
McKinney Independent School District	<u>1.474700</u>
Total	\$ 2.778453

- (a) The District has authorized the publication of the intended total tax rate of \$1.05 per \$100 of assessed valuation for the 2021 tax year. Such rate is expected to be composed of a maintenance and operations tax rate of \$0.98 per \$100 of assessed valuation and a Debt Service tax rate of \$0.07 per \$100 of assessed valuation.

THE SYSTEM

General

The water, wastewater and drainage facilities, the purchase, acquisition and construction of which have been financed by the District with the proceeds of the Bonds, 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. According to the Engineer, the design of all such facilities has been approved by all governmental agencies, which have jurisdiction over the District.

Description of the System

- Water Supply and Distribution -

Currently all of the District's water is provided by the City. The water line that serves the District is capable of serving the proposed 281 equivalent single-family connections ("ESFCs") and eventually will provide sufficient water capacity to serve 3,035 ESFCs within the District.

- Wastewater Treatment and Conveyance System -

The District receives wastewater treatment capacity from the City. The District's wastewater capacity is capable of serving 3,035 ESFCs, which is sufficient to serve the 281 ESFCs necessary to support the feasibility of this proposed bond issue.

- Storm-Water Drainage Facilities -

Storm water in the District is generally carried from west to east from the District to several unnamed tributaries that flow directly to the East Fork of the Trinity River. The District is adjacent to the East Fork of the Trinity River and several outfalls from the District will be constructed that connect directly to it. In other areas, the existing tributaries will be used to convey flow from the District to the East Fork of the Trinity River. All drainage elements were designed according to the requirements of the City and were approved by the City prior to construction.

The District is being constructed with an underground storm water sewer system that utilizes curb inlets, area inlets, reinforced concrete pipe, concrete box culverts and existing unnamed tributaries to collect and convey flow to the Trinity River. There are currently two detention ponds that collect flow from the District and release flow into unnamed tributaries that leave the boundaries of the District before their confluence with the Trinity River. These ponds were designed according to the requirements of the City and were approved by the City prior to construction.

Approximately 165 acres in the District lie in the 100-year floodplain. No development is planned within the 100-year floodplain.

Description of the Roads

Construction of the road improvements within the boundaries of the District has been financed with funds advanced by the Developer, to be reimbursed with bond proceeds. The roads within the District vary in width in accordance with the standards of the City and are sized to according to the Developer's Development Agreement with the City.

Master District Contract

MUD 1 has agreed to assume the responsibility of becoming the coordinating municipal utility district for provision of certain regional services to the Trinity Falls community (the "Service Area"), which consists of three municipal utility districts, including MUD 1, McKinney Municipal Utility District No. 2A of Collin County (a benign, inactive district), and the District, in its capacity as a participating municipal utility district (collectively, the "Participant Districts"). MUD 1, when acting in the capacity as the coordinating district, is considered the master district (the "Master District").

The District and the Master District have entered into the Amended and Restated Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer, Storm Sewer Facilities, Roads, and Fire Protection Facilities, as amended by those certain Amendments to Amended and Restated Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer, Storm Sewer Facilities, Roads, and Fire Protection Facilities, each dated effective September 5, 2018, as amended (collectively, the "Master District Contract"). Under the Master District Contract, the Master District is obligated to provide the Road System, System, and fire protection facilities required by the Master District Contract, necessary to serve the Participant Districts. To provide funds necessary to acquire the needed facilities, the Participant Districts are required under the contract to pay connection charges to the Master District in amounts sufficient to enable the Master District to provide such services. The connection charge, which is subject to recalculation periodically, is determined by dividing the current estimated costs of all the aforementioned regional facilities to be constructed minus the payments which have previously been received for connections purchased, by the anticipated number of connections remaining to be purchased, within the Service Area. Between recalculation dates, the ENR Construction Cost Index, a construction industry cost indexing standards periodic publication, may be applied as an escalator to the connection charge. In lieu of payment of connection charges, MUD 1, with the approval of the Master District, may construct facilities for the Master District which after completion are conveyed to the Master District as a credit against connection charges.

The total current master district connection fee of \$18,889 consists of a \$8,691 Master District System connection fee, a \$8,523 Master District Road System connection fee and a \$1,675 Master District fire protection connection fee. The funds held by the MUD 1 in its capacity as the Master District are legally separate distinct from the funds of the District in its capacity as a Participant District. Funds held by MUD 1 in its capacity as the Master District will never be available to make debt service payments on the Bonds.

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General Fund Operating Statement

The following statement sets forth in condensed form the historical results of operation of the System. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information obtained from the District's audited financial statements and the latest bookkeeper's report. Reference is made to such statements for further and more complete information. See "APPENDIX A."

		Fiscal Year Ended March 31				
	07/31/21 (a)	2021	2020	2019*	2018*	2017*
REVENUES						
Property Taxes	\$ 55,000	\$ 641,072	\$ 451,161	\$ -	\$ -	\$ -
Penalties and Interest	-	39	32	-	-	-
Builder Contribution	80,120	290,080	188,700	-	-	-
Franchise Fees	1,698	2,153	144	-	-	-
Miscellaneous	5,885	-	22	-	-	-
TOTAL REVENUES	\$ 142,703	\$ 933,344	\$ 640,059	\$ -	\$ -	\$ -
EXPENDITURES						
Operating and Administrative						
Professional Fees	\$ 23,650	\$ 67,075	\$ 66,770	\$ 80,176	\$ 44,907	\$ 1,226
Contracted Services	701	16,532	5,871	1,758	1,641	1,934
Repairs and Maintenance	-	-	-	105,807	-	-
Utilities	468	1,797	-	-	-	-
Administrative	7,266	16,274	8,321	9,128	7,451	6,233
Other	87	-	1,071	-	-	-
Intergovernmental						
Master District Fees	56,015	382,791	185,605	-	-	-
City Park Fee	-	4,094	871	-	-	-
Fire Service Contribution	-	-	770,714	-	-	-
Capital Outlay	-	-	29,760	615,782	-	-
Interest and Fees	-	15,000	7,500	-	-	-
TOTAL EXPENDITURES	\$ 88,977	\$ 503,563	\$ 1,076,483	\$ 812,651	\$ 53,999	\$ 9,393
NET REVENUE (DEFICIT)	\$ 53,726	\$ 429,781	\$ (436,424)	\$ (812,651)	\$ (53,999)	\$ (9,393)

(a) Unaudited; as of July 31, 2021.

* Unaudited.

DISTRICT DEBT

2021 Assessed Taxable Valuation	\$ 93,758,204	(a)
See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt:		
The Bonds	\$ 4,205,000	
Estimated Overlapping Debt (as of June 30, 2021).....	<u>\$ 3,031,916</u>	(b)
Total Direct and Estimated Overlapping Debt	\$ 7,236,916	(b)
Direct Debt Ratios:		
As a Percentage of the 2021 Assessed Taxable Valuation.....	4.48	%
Direct and Estimated Overlapping Debt Ratios:		
As a Percentage of the 2021 Assessed Taxable Valuation.....	7.72	%
General Operating Fund (as of August 4, 2021)	\$ 460,196	
Capital Projects Fund (as of August 4, 2021)	\$ 7,563	
Debt Service Fund (as of delivery of the Bonds)	\$ 126,150	(c)
2020 District Tax Rate per \$100 of Assessed Taxable Valuation:		
Debt Service	\$ 0.00	
Maintenance & Operations	<u>\$ 1.05</u>	
Total	\$ 1.05	(d)
Average Annual Debt Service Requirement on the Bonds (2022-2046)	\$ 227,900	
Maximum Annual Debt Service Requirement on the Bonds (2045)	\$ 246,281	
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay the		
Average Annual Debt Service Requirement on the Bonds (2022-2046) at 95% Collections:		
Based on the 2021 Assessed Taxable Valuation (\$93,758,204)	\$ 0.26	
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay the		
Maximum Annual Debt Service Requirement on the Bonds (2045) at 95% Collections:		
Based on the 2021 Assessed Taxable Valuation (\$93,758,204)	\$ 0.28	
Single-Family Homes (Including 80 Under Construction) as of August 1, 2021	236	

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- (a) Represents the assessed valuation of all taxable property within the District as of January 1, 2021, provided by the Appraisal District. Such amount includes \$37,086, which represents 80% of the assessed valuation assigned to properties that remain under review by the Appraisal Review Board. Such amount represents the estimated minimum amount of assessed valuation that will ultimately be approved by the Appraisal Review Board, upon which the District will levy its tax.
- (b) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (c) Represents 12-months of capitalized interest on the Bonds, which will be deposited in the District's Debt Service Fund at closing. At the delivery of the Bonds, accrued interest from October 1, 2021, will be deposited into the debt service fund. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the debt service fund.
- (d) The District has authorized the publication of the intended total tax rate of \$1.05 per \$100 of assessed valuation for the 2021 tax year. Such rate is expected to be composed of a maintenance and operations tax rate of \$0.98 per \$100 of assessed valuation and a Debt Service tax rate of \$0.07 per \$100 of assessed valuation. See "TAX DATA – Tax Rate Distribution."

Debt Service Requirements

The following sets forth the debt service requirements on the Bonds. Totals may not sum due to rounding.

Calendar Year	The Bonds		
	Principal	Interest	Debt Service
2022	\$ -	\$ 102,472	\$ 102,472
2023	120,000	111,788	231,788
2024	125,000	106,388	231,388
2025	130,000	100,763	230,763
2026	135,000	94,913	229,913
2027	140,000	88,838	228,838
2028	140,000	82,538	222,538
2029	145,000	76,238	221,238
2030	150,000	72,613	222,613
2031	155,000	69,613	224,613
2032	160,000	66,513	226,513
2033	165,000	63,313	228,313
2034	170,000	60,013	230,013
2035	175,000	56,613	231,613
2036	180,000	53,113	233,113
2037	185,000	49,288	234,288
2038	190,000	45,356	235,356
2039	195,000	41,081	236,081
2040	200,000	36,694	236,694
2041	210,000	31,944	241,944
2042	215,000	26,956	241,956
2043	220,000	21,850	241,850
2044	225,000	16,625	241,625
2045	235,000	11,281	246,281
2046	240,000	5,700	245,700
Total	<u>\$ 4,205,000</u>	<u>\$ 1,492,497</u>	<u>\$ 5,697,497</u>

Average Annual Requirement on the Bonds (2022–2046)	\$ 227,900
Maximum Annual Requirement on the Bonds (2045)	\$ 246,281

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Estimated Direct and 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 such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service, and the tax burden for operation, maintenance and/or general purposes is not included in these figures. Totals may not sum due to rounding.

Taxing Jurisdiction	Outstanding Debt as of June 30, 2021	Overlapping Debt	
		Percent	Amount
The County	\$ 557,730,000	0.04%	\$ 332,827
Collin County Community College District	\$ 524,590,000	0.04%	\$ 307,209
McKinney Independent School District	\$ 440,645,000	0.38%	\$ 2,391,880
Total Estimated Overlapping Debt.....			\$ 3,031,916
The District.....			\$ 4,205,000 (a)
Total Direct & Estimated Overlapping Debt.....			\$ 7,236,916 (a)

(a) Includes the Bonds.

Debt Ratios

	Percentage of the 2021 Assessed Taxable Valuation
Direct Debt (a)	4.48 %
Direct and Estimated Overlapping Debt (a)	7.72 %

(a) Includes the Bonds.

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy two separate annual ad valorem taxes on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "RISK FACTORS – 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 Payment." Under Texas law, the Board is also authorized to levy and collect an annual ad valorem tax for the maintenance and operations of the District and its water and wastewater system and for the payment of certain contractual obligations if authorized by its voters. The District has authorized the publication of the intended total tax rate of \$1.05 per \$100 of assessed valuation for the 2021 tax year. Such rate is expected to be composed of a maintenance and operations tax rate of \$0.98 per \$100 of assessed valuation and a Debt Service tax rate of \$0.07 per \$100 of assessed valuation. See "TAX DATA – Tax Rate Limitation."

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of 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 the responsibility for reviewing and equalizing the values established by the appraisal district. The Appraisal District has the responsibility for appraising property for all taxing units within the County, including the District. Such appraisal values are subject to review and change by the Collin County Appraisal Review Board (the “Appraisal Review Board”). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate. Under certain circumstances, taxpayers and taxing units may appeal orders of the Appraisal Review Board by timely filing a petition of review in Texas District Court, where the value of the property will be determined.

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 Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election, which the District would be required to call upon petition by 20% of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead if the surviving spouse has not remarried since the first responder’s death, and said property was the first responder’s residence homestead at the time of death. Such exemption is transferrable to a subsequent residence homestead of the

surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in Texas to exempt up to 20% of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Freeport Goods and Goods-in-Transit Exemption: A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit Exemption” may apply, for 2012 and subsequent tax years, to certain tangible personal property that is acquired in or imported into Texas for assembling, storing, manufacturing or fabrication purposes which is destined to be forwarded to another location in Texas not later than 175 days after acquisition or importation, so long as the location where said goods are detained is not directly or indirectly owned by the owner of the goods. The District has taken no action to allow taxation or exemptions of goods-in-transit. A taxpayer may not claim both a Freeport Goods Exemption and a Goods-in-Transit Exemption on the same property.

Valuation of Property for Taxation

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

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

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal orders of the Appraisal Review Board by filing a timely petition of 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 an appraisal district to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda, 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.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code classifies municipal utility districts differently based on the current maintenance and operations tax rate or on the percentage of projected build-out that the District has completed. Districts that have adopted a maintenance and operations tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as “Special Taxing Units.” Districts that have financed, completed, and issued bonds to pay for all land, 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 the maintenance and operations tax rate that would impose 1.08 times the amount of maintenance and operations tax imposed by the District in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the District in that year, subject to certain homestead exemptions.

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 Property 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 the maintenance and operations tax rate that would impose 1.035 times the amount of maintenance and operations tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor or the President of the United States (the “President”), 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 maintenance and operations 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 maintenance and operations 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 the maintenance and operations tax rate that would impose 1.08 times the amount of maintenance and operations tax imposed by the District in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the District in that year, subject to certain homestead exemptions.

The District

For the 2020 tax year, the District made the determination of its status as a Developing District. 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.

Agricultural, Open Space, Timberland, and Inventory Deferment

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance and operations purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of 6% of the amount of the tax for the first calendar month it is delinquent, plus 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 12% regardless of the number of months the tax has been delinquent and incurs an additional 20% penalty for collection costs. A delinquent tax on personal property incurs an additional 20% penalty, 60 days after the date the taxes become delinquent (April 1). For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of 1% for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

Property owners affected by a disaster may pay property taxes in four equal installments following the disaster. In addition, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time they own or occupy the property as their residential homestead.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year 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 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 (see "TAX DATA – Estimated Overlapping Taxes"). 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 or by bankruptcy proceeding which restrict the collection of taxpayer debts. See "RISK FACTORS – General" and "Tax Collections and Foreclosure Remedies."

LEGAL MATTERS

Legal Opinions

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of Texas payable from the proceeds of an annual ad valorem property tax levied, without legal limit as to rate or amount, upon all taxable property within the District and based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect, and to the effect that interest on the Bonds is excludable from gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended (the "Code") of the holders for federal tax purposes under existing law, statutes, regulations, published rulings, and court decisions and interest on the Bonds is not subject to the federal alternative minimum tax.

Bond Counsel has reviewed the information appearing in this Official Statement under the captions "THE DISTRICT – General," "THE BONDS" (except under the subheading "Registered Owner's Remedies"), "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION," solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District or Developer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

No-Litigation Certificate

The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their knowledge 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.

No Material Adverse Change

The obligations of each Initial Purchaser to take and pay for each respective series of the Bonds, and of the District to deliver each respective series of the Bonds, are subject to the condition that, up to the time of delivery of, receipt of, and payment for each respective series of the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth

or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended, through the date of sale.

TAX MATTERS

The delivery of Bonds is subject to an opinion of Bond Counsel to the effect that, assuming continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds pursuant to Section 103 of the Code, and existing regulations, published rulings and court decision procedures, interest on the bonds (i) will be excludable from the income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes and (ii) is not a specific preference item for purposes of the federal alternative minimum tax. The statutes, regulations, published rulings, and court decisions on which such opinion is based are subject to change.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state, or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds

presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or Beneficial Owners to incur significant expense.

Possible Tax Legislation

If enacted, potential tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Tax Accounting Treatment of Original Issue Discount Bonds

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is entitled to be excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public. Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Qualified Tax-Exempt Obligations

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code and will represent that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2021 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during calendar year 2021.

Pursuant to Section 265(b)(3), a qualifying financial institution may be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated bank-qualified investments. Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

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.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the SEC Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the SEC regarding the District's continuing disclosure obligations because the District has not issued more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the Bond Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain updated financial information and operating data to the EMMA annually. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the SEC Rule 15c2-12 of the Securities Exchange Act (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements when and if 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 financial information and operating data which will be provided with respect to the District is found in the APPENDIX A (the District's Audited Financial Report). In addition, the District has agreed to provide the information found in APPENDIX B (the Developer's Audited Financial Information) with respect to the Developer, any person or entity to whom the Developer voluntarily assigns (except as collateral) the right to receive a payment out of the proceeds from the sale of the bonds of the District, and each other or entity, if any, to whom the District voluntarily makes or agrees or has agreed to make a payment out of such proceeds. EMMA within such six month period, and audited financial statements when the audit report becomes available. The District will be obligated to provide information concerning the Developer and any such other person or entity only if and so long as (1) such persons own more than 20% of the taxable property within the District by value, as reflected by the most recently certified tax rolls (and without effect to special valuation provisions), (2) such persons have made tax or other payments to the District which were used or available to pay more than 20% of the District's debt service requirements in the applicable fiscal year, or (3) at the end of such fiscal year such persons are obligated to the District to provide or pay for District facilities or debt in an amount which exceeds 20% of the amount of the District's bonds then outstanding.

The District will update and provide this information to EMMA within six months after the end of each of the District's fiscal years ending in or after 2021. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to

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

Material Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment

delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS 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, 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; (13) consummation of a merger, consolidation, or acquisition involving the District, the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, or the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect bondholders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. The term “financial obligation” when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities for which an official statement has been provided to the MSRB consistent with the Rule. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

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

The Developer has agreed to provide to the District the information that the District has agreed to provide with respect to the Developer. The Developer has also agreed with the District that it will not assign any of its rights to receive payment from the District out of proceeds of the Bonds (except as collateral), unless the assignee assumes the Developer's agreement to provide such information, but the Developer may sell its property within the District without any such assumption. The District's ability to provide information about the Developer or others, as well as the accuracy and completeness of such information, is completely dependent on such persons' compliance with their contractual agreements with the District.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District or Developer, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either

the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The Bonds are the first issuance of bonded indebtedness by the District, and, as such, the District has not previously entered into a continuing disclosure agreement pursuant to the Rule.

OFFICIAL STATEMENT

Preparation

The information in this Official Statement has been obtained from sources as set forth herein under the following captions: information found under the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the Engineer; information found under the sections captioned "DEVELOPER AND PRINCIPAL LANDOWNER" and "DEVELOPMENT WITHIN THE DISTRICT" has been provided by the Developer; information found under the section captioned "TAX DATA" has been provided by the Tax Assessor/Collector and the Appraisal District; and information found under the sections captioned "THE BONDS," "DEVELOPMENT AGREEMENT WITH CITY," "CONSENT AGREEMENT WITH CITY," "STRATEGIC PARTNERSHIP AGREEMENT WITH THE CITY," "CONTINUING DISCLOSURE OF INFORMATION," "TAXING PROCEDURES," "LEGAL MATTERS," and "TAX MATTERS" has been provided by Bond Counsel.

Experts

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

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

Tax Assessor/Collector and Appraisal District: The information contained in this Official Statement relating to principal taxpayers and tax collection rates and the certified assessed taxable valuation of property in the District and, in particular such information contained in the sections captioned "TAX DATA," has been provided by the Tax Assessor/Collector and the Appraisal District, in reliance upon their authority as experts in the fields of property appraisal and tax assessment.

Auditor

The District's audited financial statements for the year ended March 31, 2021, were prepared by the Auditor and have been included herein as "APPENDIX A." The Auditor has consented to the publication of such financial statements in this Official Statement.

Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity, in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been

obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Updating of Official Statement

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

This Official Statement was approved by the Board of Directors of McKinney Municipal Utility District No. 2 of Collin County, as of the date shown on the cover.

/s/ Russell Thomsen
President, Board of Directors
McKinney Municipal Utility District No. 2 of Collin County

ATTEST:

/s/ Robert Philo
Secretary, Board of Directors
McKinney Municipal Utility District No. 2 of Collin County

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

**MCKINNEY MUNICIPAL UTILITY
DISTRICT NO. 2 of COLLIN COUNTY**

COLLIN COUNTY, TEXAS

FINANCIAL REPORT

March 31, 2021

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditor's Report

Board of Directors
McKinney Municipal Utility District No. 2 of Collin County
Collin County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of McKinney Municipal Utility District No. 2 of Collin County, as of and for the year ended March 31, 2021, 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 basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 to provide a basis for our audit opinions.

***Board of Directors
McKinney Municipal Utility District No. 2 of Collin County
Collin County, Texas***

Opinion

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 McKinney Municipal Utility District No. 2 of Collin County, as of March 31, 2021, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGuath & Co, P.C.

Houston, Texas
August 4, 2021p

Management's Discussion and Analysis

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***McKinney Municipal Utility District No. 2 of Collin County
Management's Discussion and Analysis
March 31, 2021***

Using this Annual Report

Within this section of the financial report of McKinney Municipal Utility District No. 2 of Collin County (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended March 31, 2021. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are 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*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

McKinney Municipal Utility District No. 2 of Collin County
Management's Discussion and Analysis
March 31, 2021

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at March 31, 2021, was negative \$4,047,849. This amount is negative because the District incurs debt to construct water, sewer, and certain drainage facilities which it conveys to the City of McKinney. A comparative summary of the District's overall financial position, as of March 31, 2021 and 2020, is as follows:

	2021	2020
Current and other assets	\$ 791,112	\$ 329,658
Capital assets	8,425,040	6,905,534
Total assets	<u>9,216,152</u>	<u>7,235,192</u>
Current liabilities	2,334,597	32,421
Long-term liabilities	10,929,404	12,180,782
Total liabilities	<u>13,264,001</u>	<u>12,213,203</u>
Net position		
Net investment in capital assets	(410,186)	(3,655,648)
Unrestricted	<u>(3,637,663)</u>	<u>(1,322,363)</u>
Total net position	<u><u>\$ (4,047,849)</u></u>	<u><u>\$ (4,978,011)</u></u>

McKinney Municipal Utility District No. 2 of Collin County
Management's Discussion and Analysis
March 31, 2021

The total net position of the District increased during the current fiscal year by \$930,162. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2021	2020
Revenues		
Property taxes	\$ 692,373	\$ 451,203
Builder contributions	290,080	188,700
Other	6,813	198
Total revenues	<u>989,266</u>	<u>640,101</u>
Expenses		
Operating and administrative	552,535	82,033
Intergovernmental	386,885	957,190
Debt interest	25,542	9,958
Depreciation and amortization	219,155	180,412
Total expenses	<u>1,244,980</u>	<u>1,229,593</u>
Change in net position before other items	(255,714)	(589,492)
Other items		
Change in estimate due to developer	1,195,555	
Transfers to other governments	<u>(9,679)</u>	<u>(3,579,073)</u>
Change in net position	930,162	(4,168,565)
Net position, beginning of year	<u>(4,978,011)</u>	<u>(809,446)</u>
Net position, end of year	<u><u>\$ (4,047,849)</u></u>	<u><u>\$ (4,978,011)</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of March 31, 2021, were \$685,551, which consists of \$729,434 in the General Fund and a \$43,883 deficit in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of March 31, 2021 and 2020, is as follows:

	2021	2020
Total assets	<u><u>\$ 834,995</u></u>	<u><u>\$329,658</u></u>
Total liabilities	\$ 49,597	\$29,963
Total deferred inflows	55,964	42
Total fund balance	<u>729,434</u>	<u>299,653</u>
Total liabilities, deferred inflows and fund balance	<u><u>\$ 834,995</u></u>	<u><u>\$329,658</u></u>

***McKinney Municipal Utility District No. 2 of Collin County
Management's Discussion and Analysis
March 31, 2021***

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2021	2020
Total revenues	\$ 933,344	\$640,059
Total expenditures	(503,563)	(1,076,483)
Revenues over/ (under) expenditures	429,781	(436,424)
Other changes in fund balance		875,000
Net change in fund balance	\$ 429,781	\$438,576

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy and builder contributions. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because assessed values increased from prior year.
- Builder contributions fluctuate with homebuilding activity within the District.

Capital Projects Fund

A Capital Projects Fund was established to account for the expenditure of proceeds from the issuance of the District's Series 2020 bond anticipation note. A summary of the financial position of the Capital Projects Fund as of March 31, 2021, is as follows:

Total assets	\$ 7,568
Total liabilities	\$ 51,451
Total fund balance	(43,883)
Total liabilities and fund balance	\$ 7,568

A summary of activities in the Capital Projects Fund for the fiscal year is as follows:

Total revenues	\$ -
Total expenditures	(2,224,183)
Revenues under expenditures	(2,224,183)
Other changes in fund balance	2,180,300
Net change in fund balance	\$ (43,883)

McKinney Municipal Utility District No. 2 of Collin County
Management's Discussion and Analysis
March 31, 2021

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues and other financing sources.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$302,921 greater than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developer for the financing of the construction of capital assets within the District. The Developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Capital assets held by the District at March 31, 2021 and 2020, are summarized as follows:

	<u>2021</u>	<u>2020</u>
Capital assets not being depreciated/amortized		
Land and improvements	<u>\$ 645,542</u>	<u>\$ 645,542</u>
Capital assets being depreciated/amortized		
Drainage facilities	3,228,041	3,211,354
Roads	3,280,955	3,271,444
Master District connection fees	1,712,463	
	<u>8,221,459</u>	<u>6,482,798</u>
Less accumulated depreciation/amortization		
Drainage facilities	(163,390)	(91,655)
Roads	(38,055)	(131,151)
Master District connection fees	(240,516)	
	<u>(441,961)</u>	<u>(222,806)</u>
Depreciable/amortizable capital assets, net	<u>7,779,498</u>	<u>6,259,992</u>
Capital assets, net	<u><u>\$ 8,425,040</u></u>	<u><u>\$ 6,905,534</u></u>

Capital asset additions during the current year include the following:

- Trinity falls paving and utilities package 3 (phase 3B) – drainage and roads, and
- Master district connection charges

McKinney Municipal Utility District No. 2 of Collin County
Management's Discussion and Analysis
March 31, 2021

The District and the City of McKinney (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and certain drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. The value of these assets is recorded as transfers to other governments upon completion of construction and trued-up when the developer is reimbursed. For the year ended March 31, 2021, capital assets in the amount of \$9,679 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Notes 10.

Long-Term Debt and Related Liabilities

As of March 31, 2021, the District owes approximately \$10,629,404 to the developer for completed projects and operating advances. The initial cost of each completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction.

As discussed in Note 7, the District has an additional commitment in the amount of \$24,011,742 for projects under construction by the developer. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

During the previous fiscal year, the District entered into an agreement with the Master District for cost sharing and project funding of fire facilities operated by the City. Pursuant to the agreement, the District received a loan in the amount of \$300,000 from the Master District to finance its pro rata share of costs due to the City. See Note 12 for additional information.

At March 31, 2021, the District had \$183,100,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$140,160,000 for road improvements; \$32,470,000 for fire protection facilities; \$274,650,000 for refunding bonds for water, sewer, and drainage facilities; \$210,240,000 for refunding bonds for road improvements; and \$48,705,000 for refunding bonds for fire protection facilities.

During the year, the District issued a \$2,272,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See note 6 for additional information.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District.

***McKinney Municipal Utility District No. 2 of Collin County
Management's Discussion and Analysis
March 31, 2021***

A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2021 Actual</u>	<u>2022 Budget</u>
Total revenues	\$ 933,344	\$ 1,050,350
Total expenditures	<u>(503,563)</u>	<u>(1,050,288)</u>
Revenues over expenditures	429,781	62
Beginning fund balance	<u>299,653</u>	<u>729,434</u>
Ending fund balance	<u><u>\$ 729,434</u></u>	<u><u>\$ 729,496</u></u>

Property Taxes

The District's property tax base increased approximately \$25,027,000 for the 2021 tax year from \$65,940,319 to \$90,967,157, based on preliminary values. This increase was primarily due to new construction in the District.

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Basic Financial Statements

McKinney Municipal Utility District No. 2 of Collin County
Statement of Net Position and Governmental Funds Balance Sheet
March 31, 2021

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 546,925	\$ 7,568	\$ 554,493	\$ -	\$ 554,493
Taxes receivable	55,964		55,964		55,964
Internal balances	51,451	(51,451)			
Operating Reserve - Master District	180,655		180,655		180,655
Capital assets not being depreciated				645,542	645,542
Capital assets, net				7,779,498	7,779,498
Total Assets	<u>\$ 834,995</u>	<u>\$ (43,883)</u>	<u>\$ 791,112</u>	<u>8,425,040</u>	<u>9,216,152</u>
Liabilities					
Accounts payable	\$ 47,812	\$ -	\$ 47,812		47,812
Other payables	1,785		1,785		1,785
Accrued interest payable				13,000	13,000
Bond anticipation note payable				2,272,000	2,272,000
Due to developer				10,629,404	10,629,404
Note payable (Note 10)				300,000	300,000
Total Liabilities	<u>49,597</u>	<u></u>	<u>49,597</u>	<u>13,214,404</u>	<u>13,264,001</u>
Deferred Inflows of Resources					
Deferred property taxes	<u>55,964</u>	<u></u>	<u>55,964</u>	<u>(55,964)</u>	
Fund Balances/Net Position					
Fund Balances					
Nonspendable	180,655		180,655	(180,655)	
Unassigned	<u>548,779</u>	<u>(43,883)</u>	<u>504,896</u>	<u>(504,896)</u>	
Total Fund Balances	<u>729,434</u>	<u>(43,883)</u>	<u>685,551</u>	<u>(685,551)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 834,995</u>	<u>\$ (43,883)</u>	<u>\$ 791,112</u>		
Net Position					
Net investment in capital assets				(410,186)	(410,186)
Unrestricted				<u>(3,637,663)</u>	<u>(3,637,663)</u>
Total Net Position				<u>\$ (4,047,849)</u>	<u>\$ (4,047,849)</u>

See notes to basic financial statements.

McKinney Municipal Utility District No. 2 of Collin County

**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended March 31, 2021**

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 641,072	\$ -	\$ 641,072	\$ 51,301	\$ 692,373
Penalties and interest	39		39	4,621	4,660
Builder contributions	290,080		290,080		290,080
Franchise fees	2,153		2,153		2,153
Total Revenues	933,344		933,344	55,922	989,266
Expenditures/Expenses					
Operating and administrative					
Professional fees	67,075	450,857	517,932		517,932
Contracted services	16,532		16,532		16,532
Utilities	1,797		1,797		1,797
Administrative	16,274		16,274		16,274
Intergovernmental					
Master District fees	382,791		382,791		382,791
City park fee	4,094		4,094		4,094
Capital outlay		1,712,463	1,712,463	(1,712,463)	
Debt service					
Interest	15,000		15,000	10,542	25,542
Debt issuance costs		60,863	60,863		60,863
Depreciation/amortization				219,155	219,155
Total Expenditures/Expenses	503,563	2,224,183	2,727,746	(1,482,766)	1,244,980
Revenues Over/(Under)					
Expenditures/Expenses	429,781	(2,224,183)	(1,794,402)	1,538,688	(255,714)
Other Financing Sources/Uses					
Proceeds from bond anticipation note		2,272,000	2,272,000	(2,272,000)	
Repayment of operating advances		(91,700)	(91,700)	91,700	
Other Items					
Change in estimate of due to developer				1,195,555	1,195,555
Transfers to other governments				(9,679)	(9,679)
Net Change in Fund Balances	429,781	(43,883)	385,898	(385,898)	
Change in Net Position				930,162	930,162
Fund Balances/Net Position					
Beginning of the year	299,653		299,653	(5,277,664)	(4,978,011)
End of the year	<u>\$ 729,434</u>	<u>\$ (43,883)</u>	<u>\$ 685,551</u>	<u>\$ (4,733,400)</u>	<u>\$ (4,047,849)</u>

See notes to basic financial statements.

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McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 1 – Summary of Significant Accounting Policies

The accounting policies of McKinney Municipal Utility District No. 2 of Collin County (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was originally organized, created and established by House Bill 3979, 80th Regular Session of the Texas Legislature, codified at Chapter 8252, Texas Special District Local Laws Code, effective September 1, 2007, and operates in accordance with the Texas Water Code, Chapters 49 and 54. On May 5, 2018, the District was subsequently divided into two districts, McKinney Municipal Utility District No. 2 of Collin County and McKinney Municipal Utility No. 2A of Collin County. The Board of Directors held its first meeting on March 5, 2010.

The District’s primary activities include construction of water, sewer and drainage facilities within the boundaries of The District. As further discussed in Note 11, the District transfers the water, sewer and certain drainage facilities to the City of McKinney upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has 2 governmental funds, which are both considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and builder contributions. Expenditures include costs associated with the daily operations of the District.
- The Capital Projects Fund is used to account for the expenditures of debt proceeds for the construction of the District’s water, sewer, drainage and road facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full 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 revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At March 31, 2021, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of drainage and road facilities and Master district connections fees, are depreciated/amortized using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Drainage facilities	20-45 Years
Roads	30 years
Master District connection fees	life of contract

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of an operating reserve paid to the Master District for the regional facilities.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District does not have any restricted fund balances.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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

Unassigned - all other spendable amounts in the General Fund and deficit balances in other funds.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the City of McKinney; and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balances, governmental funds	\$ 685,551
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental fund.

Historical cost	\$ 8,867,001	
Less accumulated depreciation/amortization	<u>(441,961)</u>	
Change due to capital assets		8,425,040

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:

Bond anticipation note payable	(2,272,000)	
Accrued interest payable	<u>(13,000)</u>	
		(2,285,000)

Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(10,629,404)
--	--------------

The District's note payable to McKinney Municipal Utility District No. 1 is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(300,000)
---	-----------

Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.

Property taxes receivable	51,343	
Penalty and interest receivable	<u>4,621</u>	
		55,964

Total net position - governmental activities	<u><u>\$ (4,047,849)</u></u>
--	------------------------------

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ 385,898

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes.

Property taxes	\$ 51,301	
Penalties and interest	4,621	
	<hr/>	55,922

Governmental funds report capital outlays for construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	1,712,463	
Depreciation/amortization expense	(219,155)	
	<hr/>	1,493,308

The issuance of debt provides current financial resources to governmental funds, but is recorded as a liability in the government wide statements. Other elements of debt financing are reported differently between the fund and government wide statements.

Bond anticipation note proceeds	(2,272,000)	
Interest expense accrual	(10,542)	
	<hr/>	(2,282,542)

Amounts repaid to the District's developers for operating advances do not use financial resources at the fund level, but reduce the liability in the *Statement of Net Position*.

91,700

Revisions in the estimate of due to developer do not provide financial resources in the funds; but may result in changes to net position in the *Statement of Activities*.

1,195,555

The District conveys certain water and sewer facilities to the City of McKinney and the Master District upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments.

(9,679)

Change in net position of governmental activities

\$ 930,162

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or 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) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at March 31, 2021, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Capital Projects Fund	51,451	Bond application fees paid by the General Fund

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended March 31, 2021, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 645,542	\$ -	\$ 645,542
Capital assets being depreciated			
Drainage facilities	3,211,354	16,687	3,228,041
Roads	3,271,444	9,511	3,280,955
Master District connections fees		1,712,463	1,712,463
	<u>6,482,798</u>	<u>1,738,661</u>	<u>8,221,459</u>
Less accumulated depreciation			
Drainage facilities	(91,655)	(71,735)	(163,390)
Roads	(131,151)	(109,365)	(240,516)
Master District connections fees		(38,055)	(38,055)
	<u>(222,806)</u>	<u>(219,155)</u>	<u>(441,961)</u>
Subtotal depreciable capital assets, net	<u>6,259,992</u>	<u>1,519,506</u>	<u>7,779,498</u>
Capital assets, net	<u>\$ 6,905,534</u>	<u>\$ 1,519,506</u>	<u>\$ 8,425,040</u>

Depreciation/amortization expense for the current year was \$219,155.

Note 6 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short-term financing for reimbursements to its developers. Despite its short-term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long-term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

On December 18, 2021, the District issued a \$2,272,000 BAN with an interest rate of 2%, which is due on December 17, 2022.

The effect of this transaction on the District's short-term obligations is as follows:

Beginning balance	\$ -
Amounts borrowed	<u>2,272,000</u>
Ending balance	<u>\$ 2,272,000</u>

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 7 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, and drainage facilities and road improvements to serve the District. Under the agreements, the developer will advance funds for the construction of facilities. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed. The District's developer has also advanced funds to the District for operating expenses.

Changes in the estimated amounts due to developer during the year is as follows:

Due to developer, beginning of year	\$ 11,880,782
Developer funded construction	35,877
Repayment of operating advances	(91,700)
Change in estimate due to developer	<u>(1,195,555)</u>
Due to developer, end of year	<u><u>\$ 10,629,404</u></u>

During the current fiscal year, the District revised its estimate of due to developer for amounts related to the District's share of certain regional facilities. As further discussed in Note 12, McKinney Municipal Utility District No. 1 is responsible for reimbursing the developer for the cost of regional facilities.

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 7 – Due to Developer (continued)

In addition, the District will owe the developer approximately \$24,011,742, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Percentage Complete
Trinity Falls Planning Unit 3 mass grading*	\$ 5,080,266	98%
Trinity Falls Parkway improvements*	5,066,130	45%
Trinity Falls Planning Unit 3 parkway extension*	723,034	79%
Trinity Falls Planning Unit 3 paving & utilities package 4 (phase 3E)	275,398	62%
Trinity Falls Planning Unit 3 paving & utilities package 4 (phase 5C)	3,739,129	41%
Trinity Falls Planning Unit 3 paving & utilities package 4 (CR206)	2,284,532	7%
Trinity Falls Planning Unit 3 paving & utilities package 4 (CR281)	779,179	26%
Trinity Falls Planning Unit 7 south clearing and grading package	712,153	82%
Trinity Falls Planning Unit 3 mass grading package Melissa Road	834,210	63%
Trinity Falls Planning Unit 7 paving & utilities package (phase 1)	4,126,622	61%
Trinity Falls Planning Unit 7 paving & utilities package (TF Pkwy CR 206)	391,090	9%
	<u>\$ 24,011,742</u>	

* District's estimated share of construction costs

Note 8 – Long-Term Debt

At March 31, 2021, the District had \$183,100,000 unlimited tax bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$140,160,000 for road improvements; \$32,470,000 for fire protection facilities; \$274,650,000 for refunding bonds for water, sewer, and drainage facilities; \$210,240,000 for refunding bonds for road improvements; and \$48,705,000 for refunding bonds for fire protection facilities.

Note 9 – Property Taxes

On March 31, 2021, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.20 per \$100 of assessed value.

All property values and exempt status, if any, are determined by the Collin Central Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 9 – Property Taxes (continued)

Property taxes are collected based on rates adopted in the year of the levy. The District's 2021 fiscal year was financed through the 2020 tax levy, pursuant to which the District levied property taxes of \$1.05 per \$100 of assessed value, all of which was allocated to maintenance and operations. The resulting tax levy was \$692,373 on the adjusted taxable value of \$65,940,319.

Note 10 – Transfers to Other Governments

In accordance with an agreement between the District and the City of McKinney (the "City"), the District transfers all of its water, sewer, and certain drainage facilities to the City (see Note 11). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended March 31, 2021, the District reported transfers to other governments in the amount of \$9,679 for the District's share of certain projects completed and transferred to the City.

Note 11 – Developer Agreement with the City of McKinney

On December 4, 2012, subsequently amended July 20, 2016, and October 20, 2017, the developer, on behalf of the District, entered into a development agreement with the City of McKinney (the "City") for construction and extension of water distribution lines, sanitary sewer collection systems, and drainage facilities to serve the District. As the system is acquired or constructed, the District shall transfer the system to the City but will reserve a security interest in the system and provide service to all users in the District. The term of the agreement is 15 years.

Water and sewer rates charged by the City to users in the District and the Master District service area, shall be the same rates charged to similar users within the City. All revenue derived from these charges belongs to the City.

The City is obligated to pay the District the 25% of its portion (\$0.01) of the sales and use taxes collected by the City on commercial property within the District after deducting the costs of collection. The District has not yet received any revenues pursuant to this agreement.

Note 12 – Master District

The District has entered into contracts with McKinney Municipal Utility District No. 1 of Collin County ("Master District") for the financing, operation, and maintenance of regional water, sewer, drainage, roads, and fire protection facilities (the "Master District Contract") to serve the Trinity Falls master-planned community (the "Master District Service Area").

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 12 – Master District (continued)

Capital Recovery Fees to Finance Cost of Construction

The Master District will finance the cost of the regional facilities in the Master District Service Area by imposing a capital recovery fee to participating districts, such fee will be calculated from time to time on the basis of the then estimated total cost of constructing the regional facilities minus the payments which have been previously received for connections purchased, and dividing the result by the number of estimated total connections to be constructed within the Master District Service Area minus the number of connections previously purchased from the Master District. The capital recovery fee will include separate components for the regional water system, regional sanitary sewer system, regional storm sewer system, regional road system and regional fire department station. The Master District may periodically recompute the capital recovery fee based on changes in various costs.

Operating and Maintenance Costs

The Master District shall charge a monthly fee to participating districts for expenses related to the operation and maintenance of the regional facilities, such cost per connection multiplied by the number of actual connections in the participating district. During the current year, the District recorded \$382,791 in expenditures for its share of regional facilities.

The contract authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. Prior to commencement of services, the Master District shall bill the participating districts an amount calculated by multiplying the monthly fee (as defined below) by three in order to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually. As of March 31, 2021, the Master District has established an operating reserve of \$180,655.

Fire Protection Facilities and Equipment

The District is part of a fire plan with the Master District whereby the City of McKinney will own, operate and maintain certain fire protection facilities and equipment, and employs and trains certain fire protection personnel, to provide fire protection services to the District and the Master District. During the current year, the City did not request a contribution from the District, and no payment was made to the City for firefighting services.

McKinney Municipal Utility District No. 2 of Collin County
Notes to Basic Financial Statements
March 31, 2021

Note 12 – Master District (continued)

Note Payable

On July 1, 2019, the District and the Master District entered into an agreement pursuant to which the Master District advanced \$300,000 to the District to assist with financing their share of contributions owed to the City for fire protection. The District paid interest of 5% per annum prior an amendment to the loan agreement. Starting in fiscal year end 2022, no further interest payments are to be made, provided the District can repay the loan prior to fiscal year end 2026. During the current year, the District paid \$15,000 in interest to the Master District. Additionally, the District's obligation to reimburse the Master District in the amount of \$300,000 is recognized as a note payable to the *Statement of Net Position*.

Note 13 – Economic Dependency

The developer continues to own a substantial portion of the taxable property within the District. The developer's ability to continue to pay property taxes may affect the District's ability to meet its future obligations.

Note 14 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

McKinney Municipal Utility District No. 2 of Collin County
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 450,000	\$ 678,525	\$ 641,072	\$ (37,453)
Penalties and interest			39	39
Builder contributions	280,000	280,000	290,080	10,080
Franchise fees	5,000	5,000	2,153	(2,847)
Miscellaneous	5,000	5,000		(5,000)
Total Revenues	<u>740,000</u>	<u>968,525</u>	<u>933,344</u>	<u>(35,181)</u>
Expenditures				
Operating and administrative				
Professional fees	63,500	63,500	67,075	3,575
Contracted services	3,600	3,600	16,532	12,932
Utilities			1,797	1,797
Administrative	10,945	10,945	16,274	5,329
Other	1,000	1,000		(1,000)
Intergovernmental				
Master District fees	722,620	722,620	382,791	(339,829)
City park fee	10,000	10,000	4,094	(5,906)
Fire service fee	15,000	15,000		(15,000)
Interest	15,000	15,000	15,000	
Total Expenditures	<u>841,665</u>	<u>841,665</u>	<u>503,563</u>	<u>(338,102)</u>
Revenues Over/(Under) Expenditures	(101,665)	126,860	429,781	302,921
Other Financing Source				
Developer advances	<u>101,665</u>			
Net Change in Fund Balance		126,860	429,781	302,921
Fund Balance				
Beginning of the year	<u>299,653</u>	<u>299,653</u>	<u>299,653</u>	
End of the year	<u>\$ 299,653</u>	<u>\$ 426,513</u>	<u>\$ 729,434</u>	<u>\$ 302,921</u>

McKinney Municipal Utility District No. 2 of Collin County
Notes to Required Supplementary Information
March 31, 2021

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues and other financing sources.

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Texas Supplementary Information

McKinney Municipal Utility District No. 2 of Collin County
TSI-1. Services and Rates
March 31, 2021

1. Services provided by the District During the Fiscal Year:

<input type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input type="checkbox"/> Solid Waste / Garbage	<input checked="" type="checkbox"/> Drainage
<input type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks / Recreation	<input checked="" type="checkbox"/> Fire Protection	<input checked="" type="checkbox"/> Roads	<input type="checkbox"/> Security
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)			
<input checked="" type="checkbox"/> Other (Specify): <u>Water and wastewater services provided by City of McKinney</u>			

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:					to
Wastewater:					to
Surcharge:					to

District employs winter averaging for wastewater usage? ☐ Yes ☐ No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"			x 1.0	
1"			x 2.5	
1.5"			x 5.0	
2"			x 8.0	
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water				
Total Wastewater			x 1.0	

See accompanying auditor's report.

McKinney Municipal Utility District No. 2 of Collin County
TSI-1. Services and Rates
March 31, 2021

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):
(You may omit this information if your district does not provide water)

Gallons pumped into system:	<u>N/A</u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u>N/A</u>	<u>N/A</u>

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

(You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes ☐ No ☒

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District (required for first audit year or when information changes,
otherwise this information may be omitted):

Is the District located entirely within one county? Yes ☒ No ☐

County(ies) in which the District is located: Collin County

Is the District located within a city? Entirely ☐ Partly ☐ Not at all ☒

City(ies) in which the District is located: _____

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

Entirely ☒ Partly ☐ Not at all ☐

ETJs in which the District is located: City of McKinney

Are Board members appointed by an office outside the district? Yes ☐ No ☒

If Yes, by whom? _____

See accompanying auditors' report.

McKinney Municipal Utility District No. 2 of Collin County
TSI-2 General Fund Expenditures
For the Year Ended March 31, 2021

Professional fees	
Legal	\$ 47,748
Audit	9,000
Engineering	10,327
	<u>67,075</u>
Contracted services	
Bookkeeping	3,527
Security	2,024
Tax assessor collector	10,981
	<u>16,532</u>
Utilities	<u>1,797</u>
Administrative	
Directors fees	5,850
Insurance	5,343
Other	5,081
	<u>16,274</u>
Intergovernmental	
Master District fees	382,791
City park fee	4,094
	<u>386,885</u>
Interest	<u>15,000</u>
Total expenditures	<u><u>\$ 503,563</u></u>

See accompanying auditors' report.

McKinney Municipal Utility District No. 2 of Collin County
TSI-4. Taxes Levied and Receivable
March 31, 2021

	Maintenance Taxes
Taxes Receivable, Beginning of Year	<u>\$ 42</u>
2020 Original Tax Levy	<u>\$ 692,373</u>
Total to be accounted for	<u>692,415</u>
Tax collections:	
Current year	641,030
Prior years	<u>42</u>
Total Collections	<u>641,072</u>
Taxes Receivable, End of Year	<u><u>\$ 51,343</u></u>

	2020	2019
Property Valuations		
Land	\$ 53,619,439	\$ 49,945,712
Improvements	18,844,770	190,121
Personal Property	500	
Exemptions	<u>(6,524,390)</u>	<u>(6,994,472)</u>
Total Property Valuations	<u><u>\$ 65,940,319</u></u>	<u><u>\$ 43,141,361</u></u>

Tax Rates per \$100 Valuation		
Maintenance tax rates	<u><u>\$ 1.05</u></u>	<u><u>\$ 1.05</u></u>

Adjusted Tax Levy	<u><u>\$ 692,373</u></u>	<u><u>\$ 452,984</u></u>
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Percentage of Taxes Collected to Taxes Levied **	<u><u>92.58%</u></u>	<u><u>100.00%</u></u>
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* Maximum Maintenance Tax Rate Approved by Voters: \$1.20 on November 6, 2018

** Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

See accompanying auditors' report.

McKinney Municipal Utility District No. 2 of Collin County
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2021	2020	2019	2018**	2017**
Revenues					
Property taxes	\$ 641,072	\$ 451,161	\$ -	\$ -	\$ -
Penalties and interest	39	32			
Builder contributions	290,080	188,700			
Franchise fees	2,153	144			
Miscellaneous		22			
Total Revenues	933,344	640,059			
Expenditures					
Operating and administrative					
Professional fees	67,075	66,770	80,176	44,907	1,226
Contracted services	16,532	5,871	1,758	1,641	1,934
Repairs and maintenance			105,807		
Utilities	1,797				
Administrative	16,274	8,321	9,128	7,451	6,233
Other		1,071			
Intergovernmental					
Master District fees	382,791	185,605			
City park fee	4,094	871			
Fire service contribution		770,714			
Capital outlay		29,760	615,782		
Debt service					
Interest	15,000	7,500			
Total Expenditures	503,563	1,076,483	812,651	53,999	9,393
Revenues Under Expenditures	\$ 429,781	\$ (436,424)	\$ (812,651)	\$ (53,999)	\$ (9,393)

*Percentage is negligible

** Unaudited

See accompanying auditors' report.

Percent of Fund Total Revenues				
2021	2020	2019	2018**	2017**
69%	71%	N/A	N/A	N/A
*	*			
31%	29%			
*	*			
	*			
100%	100%	N/A	N/A	N/A
7%	10%	N/A	N/A	N/A
2%	1%	N/A	N/A	N/A
		N/A		
*				
2%	1%	N/A	N/A	N/A
	*			
41%	29%			
*	*			
	120%			
	5%	N/A		
2%	1%			
54%	167%	N/A	N/A	N/A
46%	(67%)	N/A	N/A	N/A

McKinney Municipal Utility District No. 2 of Collin County
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended March 31, 2021

Complete District Mailing Address: 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056
District Business Telephone Number: (713) 850-9000
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): February 25, 2019
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Russell Thomsen	10/20 - 05/24	\$ 750	\$ -	President
Mark Yeager	02/19 - 05/22	600		Vice President
Robert Philo	03/21 - 05/22	150		Secretary
Ian McDuffee	02/19 - 05/22	1,200		Assistant Secretary
James Case	05/20 - 05/24	1,200		Assistant Secretary
Robert B Ray	05/20 - 03/21	1,200		Former Director
Pieter Kessels	05/18 - 10/20	600		Former Director
Travis Littlefield	09/13 - 02/19	150		Former Director
Consultants				
Sanford Kuhl Hagan Kugle Parker Kahn, LLP	2012	<u>Paid</u> \$ 81,278		Attorney
L&S District Services	2016	3,714		Bookkeeper
Utility Tax Services, LLC	2018	6,000		Tax Collector
Collin Central Appraisal District	Legislative	3,894		Property Valuation
Kimley-Horn and Associates, Inc.	2015	61,485		Engineer
McGrath & Co., PLLC	Annual	13,500		Auditor
Robert W. Baird & Co. Inc	2016	22,720		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.

See accompanying auditors' report.

APPENDIX B
FINANCIAL STATEMENTS OF THE DEVELOPER

Trinity Falls Holdings LP

Financial statements

December 31, 2020 and 2019



Report of independent auditors

To the Partners of
Trinity Falls Holdings LP

We have audited the accompanying financial statements of **Trinity Falls Holdings LP**, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income and comprehensive income, changes in partners' capital and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Trinity Falls Holdings LP** as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Toronto, Canada
March 22, 2021

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



A member firm of Ernst & Young Global Limited

Trinity Falls Holdings LP

Balance sheets

As at December 31

	2020	2019
	\$	\$
Assets		
Land and land improvements, net <i>[note 2]</i>	78,497,647	87,041,802
Development reimbursables, net <i>[note 3]</i>	98,382,826	91,322,027
Cash and cash equivalents	4,158,675	4,420,385
Prepaid expenses	71,930	25,557
	181,111,078	182,809,771
Liabilities and partners' capital		
Liabilities		
Loan payable – bank <i>[note 4]</i>	31,534,787	47,305,881
Accounts payable	3,906,724	6,944,058
Accounts payable – affiliates	12,910	262,180
Earnest monies on deposit	1,112,989	1,475,910
Retainage payable	1,106,853	897,170
Accrued property taxes	388,408	322,818
Franchise taxes payable	90,927	105,583
Total liabilities	38,153,598	57,313,600
Commitments and contingencies <i>[note 6]</i>		
Partners' capital	142,957,480	125,496,171
	181,111,078	182,809,771

See accompanying notes

Trinity Falls Holdings LP

Statements of income and comprehensive income

Years ended December 31

	2020	2019
	\$	\$
Revenue		
Land sales	999,452	—
Lot sales	27,780,150	22,935,850
	28,779,602	22,935,850
Expenses		
Cost of sales		
Land	297,391	—
Lots	15,492,654	12,377,597
Commissions	29,984	4,000
Commissions paid to affiliate	29,984	—
Fees paid to affiliate	1,209,596	934,538
Other closing costs	45,487	16,751
Onsite personnel and administrative	468,703	410,342
Marketing and advertising, net of reimbursements	547,203	763,555
Professional fees	115,835	86,040
Equity maintenance fees paid to affiliate	52,980	895,924
Franchise taxes	75,543	104,850
	18,365,360	15,593,597
Income before the following	10,414,242	7,342,253
Other income		
Interest income <i>[note 5]</i>	2,316,052	1,180,436
Gain recognized on collection of development reimbursables <i>[note 3]</i>	1,531,015	2,284,966
	3,847,067	3,465,402
Income and comprehensive income for the year	14,261,309	10,807,655

See accompanying notes

Trinity Falls Holdings LP

Statements of changes in partners' capital

Years ended December 31

	Johnson Trinity Falls GP, LLC \$	Johnson Trinity Falls Investors LLC \$	Trinity Falls Equity LP \$	Trinity Falls Equity 1 LP \$	McKinney Project Holdings LLC \$	Total \$
Balance, December 31, 2018	102,675	2,464,211	100,321,630	—	—	102,888,516
Partners' capital contributions, net	11,800	283,200	11,505,000	—	—	11,800,000
Comprehensive income for the year	9,642	258,881	10,539,132	—	—	10,807,655
Balance, December 31, 2019	124,117	3,006,292	122,365,762	—	—	125,496,171
Partners' capital transfer	1,379	(3,006,292)	(122,365,762)	—	125,370,675	—
Partners' capital contributions, net	3,200	—	—	—	3,196,800	3,200,000
Comprehensive income for the year	14,261	—	—	—	14,247,048	14,261,309
Balance, December 31, 2020	142,957	—	—	—	142,814,523	142,957,480

See accompanying notes

Trinity Falls Holdings LP

Statements of cash flows

Years ended December 31

	2020	2019
	\$	\$
Operating activities		
Net income for the year	14,261,309	10,807,655
Changes in operating assets and liabilities		
Land and land improvements	7,706,485	1,526,210
Development reimbursables	(9,083,448)	(30,682,849)
Prepaid expenses	(46,373)	(5,269)
Accounts payable	(26,377)	23,404
Accounts payable – affiliates	(124,635)	120,335
Earnest money held	(362,921)	1,475,910
Franchise taxes payable	(14,656)	62,547
Cash provided by (used in) operating activities	12,309,384	(16,672,057)
Financing activities		
Borrowings on loan – bank	24,366,402	37,726,700
Repayments of loan – bank	(40,137,496)	(32,172,141)
Partners' capital contributions	3,200,000	11,800,000
Cash provided by (used in) financing activities	(12,571,094)	17,354,559
Net (decrease) increase in cash during the year	(261,710)	682,502
Cash and cash equivalents, beginning of year	4,420,385	3,737,883
Cash and cash equivalents, end of year	4,158,675	4,420,385
Supplemental cash flow information		
Land and land improvement costs accrued but not paid	1,279,079	2,422,498
Development reimbursables accrued but not paid	4,135,816	5,977,351

See accompanying notes

Trinity Falls Holdings LP

Notes to financial statements

December 31, 2020 and 2019

1. Nature of operations and summary of significant accounting policies

Trinity Falls Holdings LP [the "Partnership"] is a Delaware limited partnership, qualified to do business in Texas. The Partnership was formed on July 6, 2016 and will continue indefinitely under the provisions of the limited partnership agreement. The Partnership was formed for the following purposes: the acquisition, ownership, development, operation, maintenance, management, improvement, encumbering, mortgaging, borrowing, financing, refinancing, selling, transferring, conveying and otherwise dealing with the real estate development project in McKinney, Texas, known as Trinity Falls and any other assets of the Partnership.

Prior to January 21, 2020 the Partnership consisted of one general partner, Johnson Trinity Falls GP, LLC [0.1% interest], and three limited partners: Trinity Falls Equity LP [97.5% interest], Johnson Trinity Falls Investors LLC [2.4% interest] and Trinity Falls Equity 1 LP [0.0% interest]. On January 21, 2020 the Partnership's upstream ownership reorganized and as a result, there is now only one limited partner, McKinney Project Holdings LLC [99.9% interest]. The full partnership interests of the limited partners were transferred at their carrying amounts to McKinney Project Holdings LLC [99.9% interest] as a result of the reorganization.

The partners are entitled to receive distributions on a pro rata basis.

Basis of presentation

These financial statements have been prepared on the accrual basis of accounting using U.S. Generally Accepted Accounting Principles ["U.S. GAAP"].

Fair value measurements

The Partnership applied the Financial Accounting Standards Board's ["FASB"] authoritative guidance on fair value measurements for financial assets and liabilities measured on a recurring basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To estimate fair value, the Partnership utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ["Level 1" measurements] and the lowest priority to unobservable inputs ["Level 3" measurements]. The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Trinity Falls Holdings LP

Notes to financial statements

December 31, 2020 and 2019

Level 2 – Pricing inputs are inputs other than quoted prices in active markets included in Level 1, but are either directly or indirectly observable as at the reporting date. Level 2 generally includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for interest rates and commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

As required, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Partnership's financial instruments include cash and cash equivalents, accounts payable, accounts payable – affiliates, loan payable – bank, earnest monies on deposit, retainage payable and franchise taxes payable.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

The estimation uncertainty due to the ongoing COVID-19 pandemic has been considered by the Partnership in these financial statements. The duration and severity of the pandemic is uncertain and could cause an impact on future operations out of the Partnership's control.

Adoption of new accounting standards

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that lease assets and liabilities be recognized on the balance sheet and that key information about leasing arrangements be disclosed. The guidance was effective for the Partnership beginning January 1, 2020 and had no material impact to the financial statements, as the Partnership is not subject to material leases as a lessee.

Trinity Falls Holdings LP

Notes to financial statements

December 31, 2020 and 2019

Land and land improvements and cost of sales

Land and land improvements are carried at acquisition cost plus the cost of the improvements, less cost of sales for lots and acreage sold. Cost of land improvements includes direct improvement costs as well as certain other costs that are determined to be related to the land development and are capitalized while development of the respective portion of the land is in progress. Such costs capitalized during the years ended December 31, 2020 and 2019, respectively, included \$2,063,951 and \$2,948,551 of interest, \$945,482 and \$976,351 of property taxes, \$480,594 and \$482,019 of development personnel costs and \$62,118 and \$83,422 of general and administrative costs that are estimated by management to be incurred in support of development personnel.

When a residential lot or commercial acreage is sold, land and land improvements are reduced by the costs attributable to the parcels sold. Those costs are calculated using the relative sales value method whereby the expected total costs over the life of the project are divided by the expected revenue for the life of the project to arrive at a percentage that is applied to the actual sales for the respective period.

Real estate inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case the assets are written down to fair value in accordance with ASC 360, *Property, Plant and Equipment* ["ASC 360"]. ASC 360 requires that real estate assets be tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Impairment of assets is measured by comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated by the asset. These evaluations for impairment are significantly impacted by estimates of the amounts and timing of revenues, costs and expenses, and other factors. If real estate inventory is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Fair value is determined based on estimated future cash flows discounted for inherent risks associated with the real estate assets, or other valuation techniques. As at December 31, 2020, management determined that no impairment adjustment relating to the real estate inventory was warranted.

Cash and cash equivalents

The Partnership considers all liquid investments with original maturities of three months or less to be cash equivalents. As at December 31, 2020 and 2019, cash equivalents consisted of a demand deposit account. At times during the years ended December 31, 2020 and 2019, the Partnership maintained balances in excess of federally insured limits.

Prepaid expenses

Expenses paid prior to the periods to which they relate are reflected as prepaid until such periods have passed.

Revenue recognition

Revenue is recognized when control of the of real estate property has been transferred to the customer. This occurs in a manner to depict the transfer of goods or services and satisfaction of performance obligations to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. This usually occurs upon the closing and full funding of each real estate sale, when title to and possession

Trinity Falls Holdings LP

Notes to financial statements

December 31, 2020 and 2019

of the property are transferred to the buyer. Transaction price is measured based on the consideration specified in a contract with a customer.

Capitalized interest

The Partnership capitalizes interest costs incurred to land during active development. During periods in which the Partnership's active land is lower than its debt level, a portion of the interest incurred is reflected as interest expense in the period incurred. During fiscal 2020 and 2019, the Partnership's active land exceeded its debt level, and all interest incurred was capitalized to land. Refer to note 2 for the amount capitalized during the year.

Income taxes

The Partnership is not directly subject to income taxes under the provisions of the United States Internal Revenue Code. Therefore, federal taxable income or loss is reported to the individual partners for inclusion in their respective tax returns and no provision for federal income taxes has been included in the financial statements. The State of Texas charges franchise taxes based upon individual entities' gross margins. Provision for such taxes has been made in the financial statements.

The Partnership applies guidance issued by the FASB in accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxation authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

This guidance does not have a material effect on the Partnership as the Partnership is considered a flow-through entity for U.S. federal tax purposes. As such, the Partnership's only exposure to uncertain tax positions relates to the position that the Partnership is a flow-through entity and the Texas margin tax. Management has considered the Partnership's exposure under the standard at both the federal and state tax levels. The Partnership did not recognize any uncertain tax positions under this guidance and had no uncertain tax positions as at December 31, 2020 and 2019.

The Partnership has three tax returns open for examination for the years ended December 31, 2019, 2018 and 2017.

Marketing and advertising

Marketing and advertising costs are expensed as incurred.

Concentration of credit risk

All of the Partnership's revenue is derived from the sale of residential real estate lots in a master-planned community located in McKinney, Texas. During the years ended December 31, 2020 and 2019, the four home

Trinity Falls Holdings LP

Notes to financial statements

December 31, 2020 and 2019

builders with the most lot purchases accounted for 31% and 46%, 22% and 23%, 18% and 8%, and 14% and 7% of total revenue, respectively.

A significant portion of the future cash flow of the Partnership relates to the development reimbursables [note 3]. The source of funding comes from the proceeds from unlimited tax revenue bonds that the Districts will sell as values in the respective District's warrants. Due to the nature of the Districts, including the state regulations they operate under and the contractual relationships each has with the Partnership, management does not believe that a significant credit risk exists with respect to the development reimbursables.

The Partnership utilizes one engineering firm and one landscape design firm for the design of its development. The Partnership utilizes a limited number of construction contractors for its construction work. The most the Partnership paid to any one contractor was 51% and 65% of the total development costs incurred during the years ended December 31, 2020 and 2019, respectively. Management does not believe that losing that contractor or any of the other contractors would create a substantial risk to its overall performance because there is a sufficient number of qualified replacements in the market.

The Partnership places its cash and cash equivalents with financial institutions. At times during the years ended December 31, 2020 and 2019, the balances exceeded the FDIC insurance limits.

Pending accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*, which replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information in determining credit loss estimates. The guidance is effective for the Partnership beginning January 1, 2023. The Partnership is currently assessing the impact of adopting the new standard.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform*, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. The Partnership will adopt this standard when LIBOR is discontinued and does not expect it to have a material impact on its financial statements or related disclosures.

Trinity Falls Holdings LP

Notes to financial statements

December 31, 2020 and 2019

2. Land and land improvements

As at December 31, 2020 and 2019, land and land improvements consisted of 219 and 182 finished residential lots, 569 acres and 681 acres of residential acreage under development and 79 acres and 81 acres of commercial acreage for sale, respectively.

The following is a roll-forward of the costs of land and land improvements:

	\$
Land balance as at December 31, 2018	88,150,087
Land improvement costs	
Master development costs	971,053
Onsite and offsite development costs	5,807,916
Capitalized interest costs	2,948,551
Capitalized property taxes	976,351
Capitalized overhead and other costs	565,441
Less: cost of sales	(12,377,597)
Land balance as at December 31, 2019	87,041,802
Land improvement costs	
Master development costs	1,430,164
Onsite and offsite development costs	2,263,582
Capitalized interest costs	2,063,951
Capitalized property taxes	945,482
Capitalized overhead and other costs	542,712
Less: cost of sales	(15,790,046)
Land balance as at December 31, 2020	<u>78,497,647</u>

3. Development reimbursables

McKinney Municipal Utility Districts No. 1 and No. 2 were formed ultimately to provide services to the community that is presently under development. The Partnership acquired certain development reimbursables in connection with its acquisition of Trinity Falls. As the Partnership continues to develop the land, it will expend additional amounts that become reimbursable from the Districts.

The development reimbursables will be collected when unlimited tax revenue bonds are sold by the Districts and from certain District operating funds. In addition, the Partnership is entitled to receive limited amounts of interest related to the development reimbursables.

The development reimbursables are monitored by management and written off whenever they are deemed uncollectible. During the years ended December 31, 2020 and 2019, no development receivables were deemed uncollectible.

The total amount of development reimbursables expended by the previous owner that had not been reimbursed as of the date of acquisition was \$47,717,562. The amount of the acquisition value attributed to the development

Trinity Falls Holdings LP

Notes to financial statements

December 31, 2020 and 2019

reimbursables was \$26,149,649. As the development reimbursables are collected, a portion of the proceeds will be credited as a gain. For the years ended December 31, 2020 and 2019, \$1,531,015 and \$2,284,966 respectively was credited as a gain by the Partnership.

4. Loan payable – bank

Loan payable – bank consisted of the following as at December 31:

	2020 \$	2019 \$
Revolving development loan in the amount of \$50,000,000, with U.S. Bank National Association, d/b/a Housing Capital Partnership, accruing interest payable monthly at the 30-day LIBOR plus 4.00% per annum. The principal is payable from 90% of net sales proceeds, as defined in the loan agreement, plus the reimbursement of development reimbursables. The loan matures July 19, 2021.	31,534,787	47,305,881

The loan is secured by the land and land improvements and by the development reimbursables.

The loan agreement provided for the payment of an annual loan maintenance fee of 1.0% of the committed revolving development loan balance. The loan maintenance fee of \$500,000 and \$500,000 in 2020 and 2019 was capitalized as a component of land and land improvements.

5. Interest and other income

Interest income primarily consists of interest from the development reimbursables, which is recognized when received as a direct result of the sale of unlimited tax bonds. Additionally, the Partnership records as interest income the amounts it receives from builders in connection with the sales of lots that represent the escalation of lot prices from the time builders are first committed to purchase the lots until the actual date of closing.

6. Commitments and contingencies

As at December 31, 2020 and 2019, the Partnership had commitments relating to development contracts outstanding of \$29,229,871 and \$31,105,807, respectively.

Trinity Falls Holdings LP

Notes to financial statements

December 31, 2020 and 2019

7. Related party transactions

The Partnership has certain transactions with affiliates. Prior to January 21, 2020, Tricon Holdings USA LLC had common ownership of Trinity Falls Equity LP and Trinity Falls Equity 1 LP [two of the Partnership's limited partners], subsequently the Partnership's completed a upstream ownership reorganized and as a result, there is now only one limited partner McKinney Project Holdings LLC. The following have common ownership of both Johnson Trinity Falls Investors LLC [the other limited partner] and Johnson Trinity Falls GP, LLC [the general partner]: Trinity Falls Management Partnership LLC ["Trinity Falls Management"] and The Johnson Companies LP ["TJCLP"].

The partnership agreement originally provided for the payment from the Partnership to Trinity Falls Equity LP a quarterly equity supervision fee of 0.25% of the unreimbursed capital contributions from Trinity Falls Equity LP, which is reflected as equity maintenance fees in the statements of comprehensive income, and reimbursement for certain ongoing project costs. As of January 21, 2020, the equity supervision fee no longer exists.

The Partnership has engaged Trinity Falls Management to handle its day-to-day operations under a Development Services Agreement. The Partnership pays a fee of 4.00% of sales revenue to Trinity Falls Management, pays certain commissions on sales of commercial parcels to an affiliate of Trinity Falls Management and reimburses certain other project costs and \$200 per hour for time spent by general counsel to TJCLP.

During the years ended December 31, the Partnership paid the following amounts to affiliates:

Entity	Description	2020	2019
		\$	\$
Tricon Holdings USA LLC	Equity supervision fees	52,980	895,924
Trinity Falls Management Partnership LLC	Development fees	1,209,596	934,538
The Johnson Companies LP	Reimbursement of personnel costs	895,649	821,822
The Johnson Companies LP	Reimbursement of project costs	45,001	49,919
Johnson Commercial Properties LLC	Commission	29,984	—
The Johnson Companies LP	Legal time reimbursement	—	20,025

8. Subsequent events

The Partnership evaluates subsequent events through the date management issues its financial statements. For the year ended December 31, 2020, the Partnership has evaluated subsequent events through to March 22, 2021, the date on which management issued its financial statements.

APPENDIX C
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN