

In the opinion of Bond Counsel, under existing law, assuming continuing compliance by the District (defined herein) after the date of initial delivery of the Bonds described below (the “Bonds”) with certain covenants contained in the Bond Order (defined below) authorizing the Bonds and subject to the matters set forth under “TAX MATTERS” herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the “Code”), and (2) will not be an item of tax preference for purposes of the alternative minimum tax; however, such interest may be taken into account in determining the “annual adjusted financial statement income” (as defined in section 56A of the Code) of “applicable corporations” (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations. See “TAX MATTERS” herein.

The Bonds are designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP Prefix No. 262022

RATING: Insured “AA” (stable outlook) S&P

See “MUNICIPAL BOND RATING” and “BOND INSURANCE” herein

\$8,400,000

DRIFTWOOD CONSERVATION DISTRICT

(A political subdivision of the State of Texas, located in Hays County, Texas)

UNLIMITED TAX UTILITY BONDS

SERIES 2024

Dated: March 1, 2024

Due: April 1 (as shown below)

Interest on the \$8,400,000 Unlimited Tax Utility Bonds, Series 2024 (the “Bonds”) will accrue from March 1, 2024, and will be payable on October 1 and April 1 of each year, commencing October 1, 2024. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (identified herein) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar for the Bonds is BOKF, N.A., in Dallas, Texas. See “THE BONDS – Paying Agent/Registrar.”

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



MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>
\$155,000	2025	7.000%	3.350%	\$265,000	2035(b)	4.000%	3.500% (c)
\$165,000	2026	7.000%	3.300%	\$275,000	2036(b)	4.000%	3.600% (c)
\$170,000	2027	7.000%	3.250%	\$290,000	2037(b)	4.000%	3.700% (c)
\$180,000	2028	7.000%	3.200%	\$305,000	2038(b)	4.000%	3.800% (c)
\$190,000	2029	7.000%	3.200%	\$325,000	2039(b)	4.000%	3.900% (c)
\$200,000	2030(b)	7.000%	3.200% (c)	\$340,000	2040(b)	4.000%	4.000%
\$215,000	2031(b)	7.000%	3.200% (c)	***	***	***	***
\$225,000	2032(b)	5.500%	3.250% (c)	\$520,000	2048(b)	4.125%	4.210%
\$235,000	2033(b)	4.000%	3.400% (c)	\$550,000	2049(b)	4.125%	4.220%
\$250,000	2034(b)	4.000%	3.450% (c)	\$575,000	2050(b)	4.125%	4.230%

\$740,000 4.000% Term Bond Due April 1, 2042 to Yield 4.080% (a) (b) (d)

\$820,000 4.125% Term Bond Due April 1, 2044 to Yield 4.125% (a) (b) (d)

\$1,410,000 4.125% Term Bond Due April 1, 2047 to Yield 4.200% (a) (b) (d)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Initial Purchaser (defined herein) and may be subsequently changed.
- (b) The Bonds maturing on or after April 1, 2030, are subject to redemption in whole or from time to time in part, at the option of the District (defined herein), on April 1, 2029, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption.”
- (c) Yield shown to first optional redemption date of April 1, 2029.
- (d) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”

The proceeds of the Bonds will be used by Driftwood Conservation District (the “District”) to: (1) reimburse the Developer (defined herein) for advancing funds to construct certain water, wastewater, and drainage facilities serving the District and related engineering and testing costs; (2) fund developer interest related to the advancement of funds for certain costs; (3) fund \$503,000 of capitalized interest on the Bonds; and (4) pay certain administrative costs and costs related to the issuance of the Bonds. See “USE OF BOND PROCEEDS.”

The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See “THE BONDS – Source of and Security for Payment.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Hays County, the City of Dripping Springs, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Hays County, the City of Dripping Springs are pledged to the payment of the principal of, or interest on, the Bonds. **The Bonds are subject to certain investment considerations described under the caption “RISK FACTORS.”**

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 Winstead PC, Austin, Texas, Bond Counsel. The District will be advised on certain legal matters concerning disclosure by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about March 26, 2024.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not registered or qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change 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.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, 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 Winstead PC, 401 Congress Avenue, Suite 2100, Austin, TX, 78701, for further information.

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

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

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 "BOND INSURANCE" and "APPENDIX E – 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 producing the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets (the "Initial Purchaser"), to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 97.001128% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 4.400817%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

The Initial Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering prices stated on the cover page hereof. The initial offering prices may be changed from time to time by 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 number of the Bonds of each maturity have 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 and has no control over trading of the Bonds after their initial sale by the District. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

THE PRICES AND OTHER TERMS RESPECTING 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 special 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 Bonds has been filed with the United States Securities and Exchange Commission ("SEC") 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.

CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12

The offering of the Bonds qualifies for the 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 does not have more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the order adopted by the Board of Directors of the District authorizing the issuance of the Bonds (the "Bond Order"), the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the Bond Order, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") or any successor to its functions as a repository through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to EMMA annually. In addition, the District has agreed to provide 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 person or entity, if any, to whom the District voluntarily makes or agrees or has agreed to make a payment out of such proceeds. 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 person owns 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 person has 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 person is 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 information to be updated with respect to the District includes the quantitative financial information and operating data of the general type included in "APPENDIX A" (Audited Financial Statements of the District) and with respect to the Developer is found in "DISTRICT TAX DATA – Principal Taxpayers" and "APPENDIX C – Financial Information Concerning the Developer." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2024. The District will provide the updated information to the MSRB via EMMA.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, the District shall provide unaudited financial statements for the applicable fiscal year to each EMMA within such six-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or

determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, 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 security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District, any of which reflect financial difficulties. "Financial obligation" in the immediately preceding paragraphs (15) and (16) means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) 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 make any provisions for debt service reserves, liquidity enhancement, the pledge of property (other than ad valorem tax revenues) to secure payment of the Bonds, or appointment of a trustee. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from EMMA

The District has agreed to provide the foregoing updated information only to the information vendors described above. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.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 or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

No default by the District with respect to its continuing disclosure agreement shall constitute a breach of or default under the Bond Order for purposes of any other provision of the Bond Order. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws. The District's undertakings and agreements are subject to appropriation of necessary funds and to applicable legal restrictions.

The District may amend its continuing disclosure agreement from time to time to adapt to the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment 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 holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Order if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not have prevented the Initial Purchaser from lawfully purchasing the Bonds in the initial offering. 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 represent the first series of bonds to be issued by the District; therefore, the District has never entered into a continuing disclosure agreement in accordance with the Rule.

MUNICIPAL BOND RATING

S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and

interest on the Bonds will be issued by BAM. The District can make no assurance that the S&P rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE" and "APPENDIX E – Specimen Municipal Bond Insurance Policy."

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by 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 <https://www.spglobal.com/en/>. The rating of BAM should be evaluated independently. The rating reflects S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2023 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$500.0 million, \$230.7 million and \$269.3 million, respectively.

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

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

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

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for

insurance. The Credit Insights videos are easily accessible on BAM's website at www.buildamerica.com/videos. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

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

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

THE BONDS

- Description:** The \$8,400,000 Unlimited Tax Utility Bonds, Series 2024 (the "Bonds"), are dated March 1, 2024. The Bonds represent the first series of bonds to be issued by the District and, therefore, the first series of bonds to be issued for the purpose of constructing or acquiring a water, wastewater, and drainage system to serve the District. The Bonds mature on April 1 in the years and in the principal amounts as reflected on the cover page of this Official Statement. The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water Code, as amended, Chapter 7982, Texas Special Districts Local Laws Code, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District, an approving order of the Texas Commission on Environmental Quality, and an election held within the District. See "THE BONDS."
- Source of Payment:** The Bonds are payable from a continuing, direct, annual ad valorem tax upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Hays County, the City of Dripping Springs, or any entity other than the District. See "THE BONDS – Source of and Security for Payment."
- Redemption Provisions:** The Bonds maturing on or after April 1, 2030, are subject to early redemption in whole or in part from time to time at the option of the District, on April 1, 2029, or on any date thereafter at the option of the District at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Optional Redemption." The Bonds maturing on April 1 in the years 2042, 2044, and 2047 are Term Bonds and are subject to annual mandatory sinking fund redemption. See "THE BONDS – Mandatory Redemption."
- Book-Entry-Only System:** The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System."
- Payment Record:** The Bonds represent the first series of bonds to be issued by the District. Therefore, the District has never defaulted in the payment of principal of or interest on any outstanding obligations. See "DISTRICT DEBT."
- Use of Bond Proceeds:** Proceeds from the sale of the Bonds will be used by the District to: (1) reimburse the Developer (defined herein) for advancing funds to construct certain water, wastewater, and drainage facilities serving the District and related engineering and testing costs; (2) fund developer interest related to the advancement of funds for certain costs; (3) fund \$503,000 of capitalized interest on the Bonds; and (4) pay certain administrative costs and costs related to the issuance of the Bonds. See "USE OF BOND PROCEEDS."
- Qualified Tax Exempt Obligations:** The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2024 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS."
- Municipal Bond Insurance and Rating:** S&P has assigned its municipal bond insured rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon issuance and delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. See "MUNICIPAL BOND RATING," "BOND INSURANCE" and "APPENDIX E – Specimen Municipal Bond Insurance Policy."
- Legal Opinion:** Winstead PC, Bond Counsel, Austin, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Paying Agent/Registrar:** BOKF, N.A., Dallas, Texas. See "THE BONDS – Paying Agent/Registrar."
- Risk Factors:** The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, particularly the sections captioned "RISK FACTORS" and "LEGAL MATTERS."

THE DISTRICT

Authority:	<p>The District is a conservation and reclamation district created by an Act of the 85th Texas Legislature, Regular Session, effective June 12, 2017 (codified as Chapter 7982, Texas Special District Local Laws Code). The District was created pursuant to the authority of Article XVI, Section 59 of the Texas Constitution and operates pursuant thereto, to Article III, Section 52 of the Texas Constitution, and to Chapters 49 and 54, Texas Water Code, as amended. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to conservation and reclamation districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality (the "TCEQ"). The District is empowered 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. Additionally, the District was created with certain road powers. See "THE DISTRICT – Authority."</p>
Description and Location:	<p>The District was created by approval of HB 4301 of the 85th Texas Legislature, Regular Session. As provided in HB 4301, the District originally included approximately 522.4573 acres of land. Following creation, 200.9695 acres were added to the District by approval of SB 2183 of the 87th Texas Legislature, Regular Session. On April 12, 2023 the District authorized a resolution approving a petition for addition of lands and added 13.9499 acres of land to the District. The District now contains 737.3767 acres of land within its boundaries. The District is generally located in northern Hays County, Texas approximately five (5) miles southeast of the central business district of the City of Dripping Springs, Texas (the "City") and approximately 20 miles west-southwest of the central business district of the City of Austin, Texas. The District is located on the northeast and southeast corners of R.M. 1826 and R.M. 967. The District is located entirely within the extraterritorial jurisdiction of the City and within Hays Consolidated Independent School District. Residents gain access to the District by traveling south on R.M. 12 from the central business district of the City, east and south on R.M. 150, and east on R.M. 1826. See "THE DISTRICT – Description and Location."</p>
Development of the District:	<p>The District is currently being developed for single-family residential purposes in the resort-style community and private club known as Driftwood Golf and Ranch Club. Single-family residential development within the District is planned to include approximately 333 residential lots at ultimate development consisting of Developer Lots (hereinafter defined), Custom Lots (hereinafter defined), and condominium and duplex units. Currently, Driftwood Golf and Ranch Club includes a mixture of primary residences and secondary homes. As of January 1, 2024, the District included approximately 14 completed homes, 39 homes under construction (all of which are being constructed on lots owned by individuals or third-party users), and 145 vacant developed lots (approximately 107 of which are owned by individuals or third-party users) in the platted subdivisions known as Driftwood Subdivision, Phase 1 Sections 1 – 2, Driftwood Golf and Ranch Club, Phases 1 – 3, and Driftwood Club Core, Phases 1 – 3. See "THE DISTRICT – Status of Residential Development."</p> <p>Amenities currently serving Driftwood Golf and Ranch Club include the following: (i) an 18-hole championship-level golf course; (ii) various comfort stations situated throughout the golf course containing on-course dining and entertainment; (iii) practice facilities consisting of a 13-acre driving range, luxury teaching facilities, and a 6-acre short course; (iv) an on-course pro-shop and retail center; (v) approximately five (5) miles of on-site hike and bike trails; and (vi) onsite vineyards, organic gardens, and a greenhouse dining, lounge, and private event facility. Future amenities planned for Driftwood Golf and Ranch Club include a 15,000 square foot clubhouse serving the golf course containing locker rooms, lounge areas, and dining facilities, as well as a spa, wellness, and fitness center. See "THE DISTRICT – Amenities Serving the District."</p>
Summary of Land Uses:	<p>As of January 1, 2024, the District included approximately 178 acres that have been developed and improved for single-family residential purposes, approximately 76 acres that are currently under development, approximately 84 acres available for future development, approximately 285 acres that have been developed and improved with amenities, and approximately 114 undevelopable acres, which includes detention ponds, drainage easements, road rights-of-way, District facilities, and open spaces. See "THE DISTRICT – Summary of Land Use."</p>
The Developer:	<p>The development project within the District is being implemented by Discovery Land Company, a US-based real estate developer and operator of private residential club communities and resorts with a portfolio of domestic and international projects. The developer of the District is Driftwood Golf Club Development, Inc. (the "Developer"), a Delaware (S) corporation that was established for the purpose of developing approximately 953 acres of land, of which approximately 737 acres are located within the boundaries of the District. The Developer's shareholders are comprised of a number of individual investors with a multitude of real estate investment history. The Developer purchases phases of the acreage within the District through installment sales from Driftwood Land Partners, LP, a Delaware limited partnership. The Developer and Driftwood Land Partners, LP have common investors and share the same management entity. Pursuant to a development management agreement (the "Management Agreement"), the Developer and Driftwood Land</p>

Partners, LP have contracted with Discovery Driftwood Management LLC, a Delaware limited liability company (the "Development Manager"), to provide for management of the day-to-day land development activities associated with the initiation and completion of the land development project within the District. The Management Agreement provides the Development Manager with responsibilities that include pre-development coordination and supervision of Developer's consultants and professionals, execution of the approved project plans and specifications, and supervision of lot marketing and sales.

The District is expected to include 333 single-family residential lots at ultimate development, of which 198 lots have heretofore been developed, including 160 lots that have been sold to individuals or third-party users and 38 lots that are owned by the Developer. Additionally, the Developer reports that 29 lots are currently under construction and are expected to be available for homebuilding during the second quarter of 2024. According to the Developer, 33.6% of all lots require the purchasers of such lots to contract with the Developer to build the home (the "Developer Lots") and the remaining 66.4% of all lots are sold in a manner such that the owner may select any builder and design team (the "Custom Lots"). There are no building requirements on the Custom Lots, while there are building stipulations in place for the Developer Lots, including requirements for the timing in which homebuilding construction must commence. Lot prices have ranged from \$550,000 to \$4,000,000 depending upon lot size and location within the District. Driftwood Land Partners, LP currently retains ownership of certain acreage within the District, which is expected to be developed into approximately 28 single-family residential lots based on current land plans; no specific development plans for such 28 lots exists at this time. See "THE DEVELOPER."

Homebuilders:

The current homebuilders in the District include a collection of various custom homebuilders from both the Austin area, as well as custom homebuilders from out of state. Such homebuilders (referred to herein as the "Homebuilders") have experience in the custom homebuilding industry. The Homebuilders are constructing homes ranging in size from 3,500 square feet to 14,900 square feet and completed homes in the District are being marketed in prices ranging from \$6,000,000 to \$12,000,000. See "THE DISTRICT – Status of Residential Development" and "THE DEVELOPER – Homebuilders."

Water and Wastewater Facilities Agreement:

Water supply and wastewater treatment facilities serving the District are provided by the City pursuant to the terms of a Retail Water and Wastewater Services Agreement (the "Service Agreement") dated January 8, 2019, and to continue for a period of 45 years. The Service Agreement was entered into by and between the City, the District, and the Developer's predecessor in interest. The term of the Service Agreement may be extended by mutual agreement of the District and the City. The Service Agreement provides that the Developer (on behalf of the District) or the District will design, finance, and construct all of the water and wastewater facilities required to serve the District in accordance with the applicable City requirements and design standards and other regulatory standards pertaining to such facilities. The Service Agreement provides that upon completion of the construction of the water and wastewater facilities constructed by or on behalf of the District, and following the City's acceptance of such facilities, such facilities are conveyed by the District to the City. In exchange for the conveyance of the water and wastewater facilities to serve the District, the City agrees to operate and maintain all water and wastewater facilities conveyed and to provide retail water and wastewater services to customers within the District at the City's standard water and wastewater rates. All of the system improvements needed to serve the developed portions of the District have been constructed by the Developer and approved by the City. The District will maintain an ownership interest in the capacity of water and wastewater system to ensure water and wastewater service.

The Service Agreement requires the City to provide the District with water supply and wastewater treatment capacity from the City's system (as defined in the Service Agreement) capable of serving 610 living unit equivalents ("LUEs") of water supply capacity and 1,000 LUEs of wastewater treatment capacity. The system improvements, such as the construction of an internal water distribution system, internal wastewater collection system, lift stations, and other system improvements, must be made by the Developer or the District. See "THE SYSTEM."

Drainage System:

The District is located within the Onion Creek watershed, which drains into the Colorado River. The District drains southeast to Onion Creek or northwest to an unnamed tributary. The District also includes natural areas, which have been enhanced to serve as water-quality structures. The drainage conveyance system to serve the portions of the District developed for residential purposes is complete. Storm water runoff in the residential portions of the District is collected using overland flow via roadside ditches into culverts which will convey the flows into water quality ponds or directly discharge into existing tributaries. In accordance with jurisdictional requirements, stormwater from the drainage system will be directed through an appropriate best management practice for water quality prior to entering into Onion Creek and eventually to the Colorado River. The design of the stormwater system is based on the requirements of the City, Hays County, and the TCEQ. The District is also subject to a provision of a development agreement with the City, which requires a portion of the development to participate in rainwater harvesting from residential structures with an option to utilize a centralized collection system for injection into the ground via injection well. See "THE SYSTEM."

SELECTED FINANCIAL INFORMATION
(Unaudited)

1/1/2024 Estimated Taxable Value	\$188,762,600	(a)
2023 Certified Taxable Value	\$130,276,438	(b)
Direct Debt:		
The Bonds	<u>\$8,400,000</u>	(c)
Total Direct Debt	\$8,400,000	
See "DISTRICT DEBT"		
Estimated Overlapping Debt	<u>\$8,665,305</u>	(d)
Direct and Estimated Overlapping Debt	\$17,065,305	(d)
Percentage of Direct Debt to:		
1/1/2024 Estimated Taxable Value	4.45%	
2023 Certified Taxable Value	6.45%	
See "DISTRICT DEBT"		
Percentage of Direct and Estimated Overlapping Debt to:		
1/1/2024 Estimated Taxable Value	9.04%	
2023 Certified Taxable Value	13.10%	
See "DISTRICT DEBT"		
2023 Tax Rate Per \$100 of Assessed Value:		
Utility Debt Service Tax	\$0.00	(e)
Maintenance Tax	<u>\$1.00</u>	
Total 2023 Tax Rate	\$1.00	
Cash and Temporary Investment Balances:		
General Fund (as of January 10, 2024)	\$330,715	(f)
Utility Debt Service Fund	\$503,000	(g)

- (a) Reflects data supplied by the Hays Central Appraisal District ("Hays CAD" or the "Appraisal District"). The Estimated Taxable Value as of January 1, 2024, was prepared by Hays CAD and provided to the District. Such value is not binding on Hays CAD. Any new value since January 1, 2023 will not be included on the District's tax roll until the 2024 tax roll is prepared and certified by Hays CAD during the second half of 2024. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the January 1, 2023 Certified Taxable Value according to data supplied to the District by Hays CAD. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (c) The Bonds represent the first series of bonds to be issued by the District.
- (d) See "DISTRICT DEBT – Estimated Overlapping Debt."
- (e) The Bonds represent the first series of bonds to be issued by the District to finance the acquisition or construction of a water, wastewater, and drainage system. The District intends to levy a utility debt service tax beginning with its 2024 tax rate.
- (f) Unaudited figure per the District's records. See "RISK FACTORS – Operating Funds" and "THE SYSTEM – General Fund Operating History."
- (g) The cash and investment balance in the Utility Debt Service Fund represents \$503,000 of capitalized interest to be funded with proceeds of the Bonds and to be deposited into such fund on the date of delivery of the Bonds. See "USE OF BOND PROCEEDS." Neither Texas law nor the District's Bond Order require that the District maintain any particular balance in the Utility Debt Service Fund. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue" and "THE BONDS – Funds."

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Bonds.

<u>Year</u>	<u>Debt Service Requirements on the Bonds</u>		<u>Total Debt Service Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2024	-	\$223,107	\$223,107
2025	\$155,000	\$377,044	\$532,044
2026	\$165,000	\$365,844	\$530,844
2027	\$170,000	\$354,119	\$524,119
2028	\$180,000	\$341,869	\$521,869
2029	\$190,000	\$328,919	\$518,919
2030	\$200,000	\$315,269	\$515,269
2031	\$215,000	\$300,744	\$515,744
2032	\$225,000	\$287,031	\$512,031
2033	\$235,000	\$276,144	\$511,144
2034	\$250,000	\$266,444	\$516,444
2035	\$265,000	\$256,144	\$521,144
2036	\$275,000	\$245,344	\$520,344
2037	\$290,000	\$234,044	\$524,044
2038	\$305,000	\$222,144	\$527,144
2039	\$325,000	\$209,544	\$534,544
2040	\$340,000	\$196,244	\$536,244
2041	\$360,000	\$182,244	\$542,244
2042	\$380,000	\$167,444	\$547,444
2043	\$400,000	\$151,594	\$551,594
2044	\$420,000	\$134,681	\$554,681
2045	\$445,000	\$116,841	\$561,841
2046	\$470,000	\$97,969	\$567,969
2047	\$495,000	\$78,066	\$573,066
2048	\$520,000	\$57,131	\$577,131
2049	\$550,000	\$35,063	\$585,063
2050	<u>\$575,000</u>	<u>\$11,859</u>	<u>\$586,859</u>
TOTALS	\$8,400,000	\$5,832,885	\$14,232,885

Maximum Annual Debt Service Requirements (2050).....\$586,859 (a)

Requires a \$0.33 debt service tax rate on the January 1, 2024 Estimated Taxable Value of \$188,762,600
at 95% collections.....\$591,771 (a)

Requires a \$0.48 debt service tax rate on the 2023 Certified Taxable Value of \$130,276,438
at 95% collections.....\$594,061 (a)

(a) See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

OFFICIAL STATEMENT

relating to

\$8,400,000

DRIFTWOOD CONSERVATION DISTRICT
(A political subdivision of the State of Texas located within Hays County, Texas)

UNLIMITED TAX UTILITY BONDS
SERIES 2024

INTRODUCTION

This Official Statement provides certain information in connection with the issuance of the \$8,400,000 Driftwood Conservation District Unlimited Tax Utility Bonds, Series 2024 (the "Bonds").

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of Driftwood Conservation District (the "District"), an approving order of the Texas Commission on Environmental Quality (the "TCEQ"), and an election held within the District.

This Official Statement includes descriptions of the Bonds, the Bond Order and certain information about the District and its financial condition and the developer in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from General Counsel (identified herein) to the District upon payment of duplication costs thereof.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Hays County, the City of Dripping Springs (the "City"), or any other political subdivision. The Bonds are payable from a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. See "THE BONDS – Source of and Security for Payment." The investment quality of the Bonds depends on the ability of the District to collect all taxes levied against the taxable property within the District and, in the event of foreclosure of the District's tax lien, on the marketability of the property and the ability of the District to sell the property at a price sufficient to pay taxes levied by the District and by other overlapping taxing authorities. The District cannot and does not make any representations that over the life of the Bonds the taxable property within the District will accumulate or maintain taxable values sufficient to justify the continued payment of taxes by property owners.

Marketability

The District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price 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.

Tax Collections

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be impaired by: (a) repetitive, annual, expensive collection procedures, (b) a federal bankruptcy court's stay of tax collection procedures, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such 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.

Registered Owners' Remedies

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

such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's governmental immunity from suits for money damages. Even if such governmental immunity were waived and a judgment against the District for money damages were obtained, the judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of, and interest on, the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of 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. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings, the remedy of mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge.

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) has either obtained the agreement of, or negotiated in good faith with, its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Note, however, that Texas law requires a conservation and reclamation district such as the District to obtain approval from the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9 of the Federal Bankruptcy Code, 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 making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owners could potentially and adversely impair the value of the Registered Owners' claim.

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

The District may not be placed into bankruptcy involuntarily.

Approval of the Bonds

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

Economic Factors and Interest Rates

Long-term interest rates affect home purchasers' ability to qualify for and afford the total financing costs of a new home. The return of long-term interest rates at higher levels may negatively affect home sales and the maintenance of taxable values in the District.

A substantial percentage of the taxable value of the District results from the current market value of undeveloped land and of developed lots which are currently being marketed by the Developer for sale to homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability, and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

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 and school districts 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.

Landowners/Developer under No Obligation to the District

The Developer does not have any commitments or obligations to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District. Currently, there is no restriction on the Developer's sale of its land. Failure to construct taxable improvements on developed lots (previously created or anticipated to be created by the Developer) 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 certain principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of any of such principal taxpayers will be or what effect, if any, such conditions may have on their ability to pay taxes. See "DISTRICT TAX DATA – Principal Taxpayers."

Operating Funds

Landowners within the District receive water and wastewater service from the City. The District does not operate the water and wastewater system and therefore does not receive payments from customers for water and wastewater service on a monthly basis. The District levied a 2023 maintenance tax rate of \$1.00 per \$100 of assessed valuation, which produces a maintenance tax levy in the amount of \$1,302,764. The revenue produced from the District's annual maintenance tax levy in the future may or may not be sufficient to offset the District's operating expenses. As of January 10, 2024, the District's General Fund had an unaudited cash and investment balance of \$330,715. For the fiscal year ending September 30, 2024, the District's General Fund is currently budgeting operating expenses of \$603,860. The Developer has made certain operating advances to the District since inception of the District. Continued maintenance of a positive General Fund balance may depend upon: (1) development and increased amounts of maintenance tax revenue, and (2) cash subsidies from the Developer from time to time. The inability of the Developer to subsidize the District's operations, if necessary, could result in a tax rate increase in the District. If the District's General Fund is depleted, the District will be required to levy a maintenance tax at a rate sufficient to fund operating expenses. Such tax, when added to the District's future debt service tax rate, may result in a total District tax which could adversely affect continued development of the District, as well as the willingness of the taxpayers in the District to pay taxes on their property. The District currently plans to manage its debt service and operating expenditure requirements with a total tax rate of \$1.00 per \$100 of assessed valuation. The Developer has entered into an agreement with the District memorializing its obligation to make operating advances to the District as may be required from time to time. For the fiscal year ending September 30, 2024, the District's General Fund is currently budgeting \$350,000 of operating advances from the Developer. See "THE SYSTEM – General Fund Operating History."

Dependence on Major Taxpayers and the Developer

The District's principal taxpayers include the Developer and certain entities directly or indirectly related to the Developer, which collectively represent approximately \$74,470,590 of taxable assessed valuation, or approximately 57.16% of the District's 2023 Certified Taxable Value. If the Developer and such entities were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its Utility Debt Service Fund. See "Tax Collections" herein, "DISTRICT TAX DATA – Principal Taxpayers" and "TAXING PROCEDURES – Assessment and Levy."

The Developer has informed the Board that its current plan is to continue marketing the existing vacant developed lots in the District to homebuilders and to undertake the development of additional land in the future. However, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development 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 landowner within the District to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell 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 or any other landowner. See "THE DEVELOPER."

Development and Home Construction in the District

The District includes vacant developed lots that remain available for home construction and which are either owned by the Developer, individuals, or third-party users. Failure of the Developer or individual lot owners to construct taxable improvements on developed lots could result in substantial increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and other tax-supported obligations of the District. Future increases in the District's taxable value will result primarily from the construction of additional homes. See "Dependence on Future Development and Potential Impact on District Tax Rates" below.

Dependence on Future Development and Potential Impact on District Tax Rates

The District's 2023 tax rate is \$1.00 per \$100 of assessed valuation, which is in line with the tax rate that is common among many other utility districts providing similar services located in Hays County, Texas. An increase in the District's tax rate substantially above such a level could have an adverse impact on future development in the District and on the District's ability to collect such tax.

Assuming no further construction of residential or building development projects within the District other than those that have been constructed, the value of such land and improvements currently located and under construction within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay, ad valorem taxes levied by the District. After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$586,859 (2050). The January 1, 2024 Estimated Taxable Value of property within the District is \$188,762,600. Assuming no increase or decrease from the January 1, 2024 Estimated Taxable Value and no use of other District funds, a utility debt service tax rate of \$0.33 per \$100 of assessed valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement. The 2023 Certified Taxable Value of property within the District is \$130,276,438. Assuming no increase or decrease from the 2023 Certified Taxable Value and no use of other District funds, a utility debt service tax rate of \$0.48 per \$100 of assessed valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

Future Debt

Pursuant to Article XVI, Section 59 of the Texas Constitution and an election held for and within the District on November 6, 2018, the duly authorized registered voters of the District authorized the District to issue a total of \$213,039,000 of unlimited tax bonds for the purposes of providing water, wastewater, and drainage facilities and improvements and \$244,995,000 of unlimited tax refunding bonds for the purpose of refunding outstanding water, wastewater, and drainage bonds. Pursuant to Article III, Section 52 of the Texas Constitution and an election held for and within the District on November 6, 2018, the duly authorized registered voters of the District authorized the District to issue a total of \$48,863,000 of unlimited tax bonds for the purposes of providing road facilities and improvements and \$56,192,000 of unlimited tax refunding bonds for the purpose of refunding outstanding road bonds.

Following the issuance of the Bonds, \$204,639,000 of unlimited tax utility bonds and \$244,995,000 of unlimited tax utility refunding bonds, and \$48,863,000 of unlimited tax road bonds and \$56,192,000 of unlimited tax road refunding bonds will remain authorized and unissued. See "THE BONDS – Issuance of Additional Debt." The District believes that such remaining authorization of unlimited tax bonds for water, wastewater, storm drainage, and road purposes will be sufficient to finance improvements for the remainder of the District.

The District has the right to issue the remaining unissued new money bonds and refunding bonds as may hereafter be approved by the Board. Voters could authorize the issuance of additional bonds in the future, and the District may issue additional refunding bonds without additional elections. Any future new money bonds, other than road bonds, to be issued by the District must also be approved by the TCEQ. Such additional new money bonds or refunding bonds would be issued on a parity with the Bonds. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. Generally, the Board of Directors has indicated that, in the future, new money bonds will be issued in amounts and in timeframes depending upon: (i) the rate of growth of taxable improvements in the District, and (ii) the District's ability to maintain a total tax rate of \$1.00 per \$100 of assessed valuation or less.

Financing Road Facilities

The District is authorized to develop road facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue road bonds payable from taxes, approval of the bonds by the Attorney General of Texas would be required. When the District does issue road bonds, the outstanding principal amount of any road bonds issued by the District may not exceed an amount equal to twenty-five percent of the value of taxable real property in the District. As noted above, the District conducted a road bond election that authorized \$48,863,000 of unlimited tax road bonds at an election held on November 6, 2018, all of which remain authorized but unissued.

Continuing Compliance with Certain Covenants

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

Environmental Regulations

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

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

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

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 Austin area. Under the Clean Air Act (“CAA”) Amendments of 1990, the five-county Austin area (“Austin Area”)—Travis, Hays, Williamson, Bastrop, and Caldwell Counties—has been designated an attainment/unclassifiable area under two separate federal ozone standards: the 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”).

Although the Austin Area is currently in attainment, the Austin Area has been and continues to be near the non-attainment thresholds for ozone. Accordingly, it is possible that the Austin Area could be re-classified as a nonattainment area should ozone levels increase. A designation of nonattainment for ozone or any other pollutant could 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. In the past, the Austin Area has entered into agreements with the TCEQ to undertake voluntary actions to help avoid a nonattainment designation. Since 2004, the Austin Area has been party to a curtailment agreement with the TCEQ, and the Austin Area is currently part of an EPA Ozone Advance Program.

In order to comply with the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) 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 Austin Area. It is possible that additional controls will be necessary to allow the Austin Area to maintain attainment with the ozone standards. Such additional controls could have a negative impact on the Austin 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 Austin 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) (“CGP”), with an effective date of March 5, 2023, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. The CGP 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.

In addition to the foregoing, special district activities in the Austin Area involving the clearing of acreage and construction within the Edwards Aquifer recharge, transition, and contributing zones are subject to the TCEQ’s Edwards Aquifer Protection Program, which requires a site-specific application, construction plan approval, and the implementation of temporary and permanent structural and non-structural Best Management Practices and the protection of sensitive features.

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.

On May 25, 2023, the Supreme Court of the United States issued its decision in *Sackett v. EPA*, which clarified the definition of “waters of the United States” and significantly restricted the reach of federal jurisdiction under the CWA. Under the *Sackett* decision, “waters of the United States” includes only geographical features that are described in ordinary parlance as “streams, oceans, rivers, and lakes” and to adjacent wetlands that are indistinguishable from such bodies of water due to a continuous surface connection.

While the *Sackett* decision removed a great deal of uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

As noted elsewhere in this Official Statement, the City currently provides water and wastewater services within the District.

Drought Conditions

The Austin area, including the area in and around the District in Hays County, like other areas of the State, is susceptible to drought conditions. The City provides water to the District in amounts sufficient to service the residents of the District. However, if drought conditions occur, water usage and rates could be impacted.

Storm Water

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain. See “THE SYSTEM – 100-Year Floodplain.”

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.

Forward-Looking Statements

The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates, possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

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 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 an issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by BAM at such time and in such amounts as would have been due absent such prepayment by the District unless BAM chooses to pay such amounts at an earlier date.

Default of payment of principal and interest does not obligate acceleration of the obligations of BAM without appropriate consent. BAM may direct and must consent to any remedies and BAM's consent may be required in connection with amendments to any applicable bond documents.

In the event BAM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event BAM becomes obligated

to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market 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 BAM and its claim paying ability. BAM'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 BAM and of the ratings on the Bonds insured by BAM will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of "BOND INSURANCE" herein.

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

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

USE OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to: (1) reimburse the Developer for advancing funds to construct certain water, wastewater, and drainage facilities serving the District and related engineering and testing costs; (2) fund developer interest related to the advancement of funds for certain costs; (3) fund \$503,000 of capitalized interest on the Bonds; and (4) pay certain administrative costs and costs related to the issuance of the Bonds.

Murfee Engineering Company, Inc. (the "Engineer") has advised the District that the proceeds listed below should be sufficient for the acquisition of such facilities. The District's present estimate of the use of proceeds of the Bonds is as follows:

CONSTRUCTION COSTS	Total Amount
<i>Developer Contribution Items</i>	
Driftwood Phase 1 Section 1 Retrofit – WW and RW Collection	\$836,339
Driftwood Phase 1 Section 2 – W, WW, D	\$1,212,535
Driftwood Phase 1 Wastewater Line Extension	\$1,321,800
Driftwood Golf and Ranch Club Phase 2 – W, WW, D	\$1,284,441
Engineering, Geotechnical, Permitting, and Misc. Costs	\$1,551,373
Storm Water Pollution Prevention Plan (SWPPP) Costs	\$12,810
<i>Total Developer Contribution Items</i>	\$6,219,298
<i>District Items</i>	
-	-
<i>Total District Items</i>	-
TOTAL CONSTRUCTION COSTS	\$6,219,298 (a)
NON-CONSTRUCTION COSTS	
Legal Fees	\$252,000
Fiscal Agent Fees	\$168,000
Interest Costs:	
Capitalized Interest	\$503,000
Developer Interest	\$520,623
Bond Discount	\$251,905
Creation Costs	\$218,215
Operating Advances	\$126,042
Bond Issuance Expenses	\$46,422
Bond Application Report Costs	\$65,000
TCEQ Bond Issuance Fee	\$21,000
Attorney General Fee	\$8,400
Contingency	\$95 (b)
TOTAL NON-CONSTRUCTION COSTS	\$2,180,702
TOTAL BOND ISSUE REQUIREMENT	\$8,400,000

(a) TCEQ rules require, with certain exceptions, that developers contribute to the District's construction program a minimum of 30% of the construction costs of certain system facilities. The District has been granted a waiver of such requirement.

(b) Represents the difference between the estimated and actual amount of Bond discount. Such funds will be used by the District to fund costs only after approval by the TCEQ.

THE DISTRICT

Authority

The District is a conservation and reclamation district created by an Act of the 85th Texas Legislature, Regular Session, effective June 12, 2017 (codified as Chapter 7982, Texas Special District Local Laws Code). The District was created pursuant to the authority of Article XVI, Section 59 of the Texas Constitution and operates pursuant thereto, to Article III, Section 52 of the Texas Constitution, and to Chapters 49 and 54, Texas Water Code, as amended. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to conservation and reclamation districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered 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. Additionally, the District was created with certain road powers.

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) consent from the City, in whose extraterritorial jurisdiction the District is located; (3) approval of master plan and bonds by the TCEQ; and (4) approval of bonds by the Attorney General of Texas. The Board has not considered seeking authorization to engage in fire-fighting activities at this time, but may do so in the future. If additional debt obligations for fire-fighting purposes are issued in the future by the District, such issuance may adversely affect the investment security of the Bonds.

In order to obtain the consent of the City, within whose extraterritorial jurisdiction the District lies, to the District's creation, the District has agreed to observe certain City requirements. These requirements limit the purposes for which the District may sell bonds for the acquisition and improvement of waterworks, wastewater, drainage, and road facilities; limit the net effective interest rate on such bonds and other terms of such bonds; and require the City's approval of certain of the District's construction plans and specifications.

Description and Location

The District was created by approval of HB 4301 of the 85th Texas Legislature, Regular Session. As provided in HB 4301, the District originally included approximately 522.4573 acres of land. Following creation, 200.9695 acres were added to the District by approval of SB 2183 of the 87th Texas Legislature, Regular Session. On April 12, 2023, the District authorized a resolution approving a petition for addition of lands and added 13.9499 acres of land to the District. The District now contains 737.3767 acres of land. The District is generally located in northern Hays County, Texas approximately five (5) miles southeast of the central business district of the City and approximately 20 miles west-southwest of the central business district of the City of Austin, Texas. The District is located on the northeast and southeast corners of R.M. 1826 and R.M. 967. The District is located entirely within the extraterritorial jurisdiction of the City and within Hays Consolidated Independent School District. Residents gain access to the District by traveling south on R.M. 12 from the central business district of the City, east and south on R.M. 150, and east on R.M. 1826.

Summary of Land Use

A summary of the approximate land use in the District as of January 1, 2024, appears in the following table:

<u>Type of Land Use</u>	<u>Acres (approx.)</u>
Developed Single-Family Residential Acres (a)	178
Acres Under Development (b)	76
Additional Developable Acreage (c)	84
Acres Developed with Amenities (d)	285
Undevelopable Acres (e)	<u>114</u>
Total Approximate Acres	<u>737</u>

- (a) Represents land that has been developed and improved for single-family residential purposes and is served with water, wastewater, storm drainage and detention, and road facilities. See "– Status of Residential Development."
- (b) Represents land that is currently under development for single-family residential purposes.
- (c) Represents additional developable land that may be developed in the future. Such acreage includes land that may be used for road rights-of-way, detention ponds, drainage easements, open spaces, or other undevelopable acres. The District makes no representation that the development of such acreage will ever be undertaken.
- (d) Represents land that has been developed with amenities. See "– Amenities Serving the District."
- (e) Includes detention ponds, drainage easements, road rights-of-way, District facilities, and open spaces.

Status of Residential Development

The District is currently being developed for single-family residential purposes in the resort-style community and private club known as Driftwood Golf and Ranch Club. Single-family residential development within the District is planned to include approximately 333 residential lots at ultimate development consisting of Developer Lots, Custom Lots, and condominium and duplex units. Currently, Driftwood Golf and Ranch Club includes a mixture of primary residences and secondary homes.

Homebuilding within the District commenced on or about July of 2021. The following table indicates the approximate status of single-family residential development as of January 1, 2024. See "APPENDIX B – PHOTOGRAPHS TAKEN IN THE DISTRICT" for further illustration of the various homes being constructed in the District.

<u>Subdivision/Section</u>	<u>Total Lots</u>	Homes		<u>Vacant Lots</u>
		<u>Completed</u>	<u>Under Construction</u>	
Driftwood Subdivision, Phase 1 Section 1 (a)	31	2	6	23
Driftwood Subdivision, Phase 1 Section 2 (a)	31	1	3	27
Driftwood Golf and Ranch Club, Phase 1 (b)	34	0	12	22
Driftwood Golf and Ranch Club, Phase 2 (b)	46	1	7	38
Driftwood Golf and Ranch Club, Phase 3 (b)	30	0	0	30
Driftwood Club Core, Phases 1 – 3 (c)	26	10	11	5
TOTALS	198	14 (d)	39 (e)	145 (f)

(a) Homes in Driftwood Subdivision, Phase 1 Sections 1 – 2 are being constructed on both Developer Lots and Custom Lots and the lots were sold in the \$560,000 - \$2,000,000 price range.

(b) Homes in Driftwood Golf and Ranch Club, Phases 1 – 3 are being constructed on both Developer Lots and Custom Lots and the lots are being marketed in the \$2,500,000 - \$4,000,000 price range.

(c) Homes in Driftwood Club Core, Phases 1 – 3 are detached condominiums units and the lots were sold in the \$550,000 - \$1,350,000 price range.

(d) The Homebuilders (hereinafter defined) are constructing homes ranging in size from 3,500 square feet to 14,900 square feet and completed homes in the District are being marketed in prices ranging from \$6,000,000 to \$12,000,000. See "THE DEVELOPER – Homebuilders."

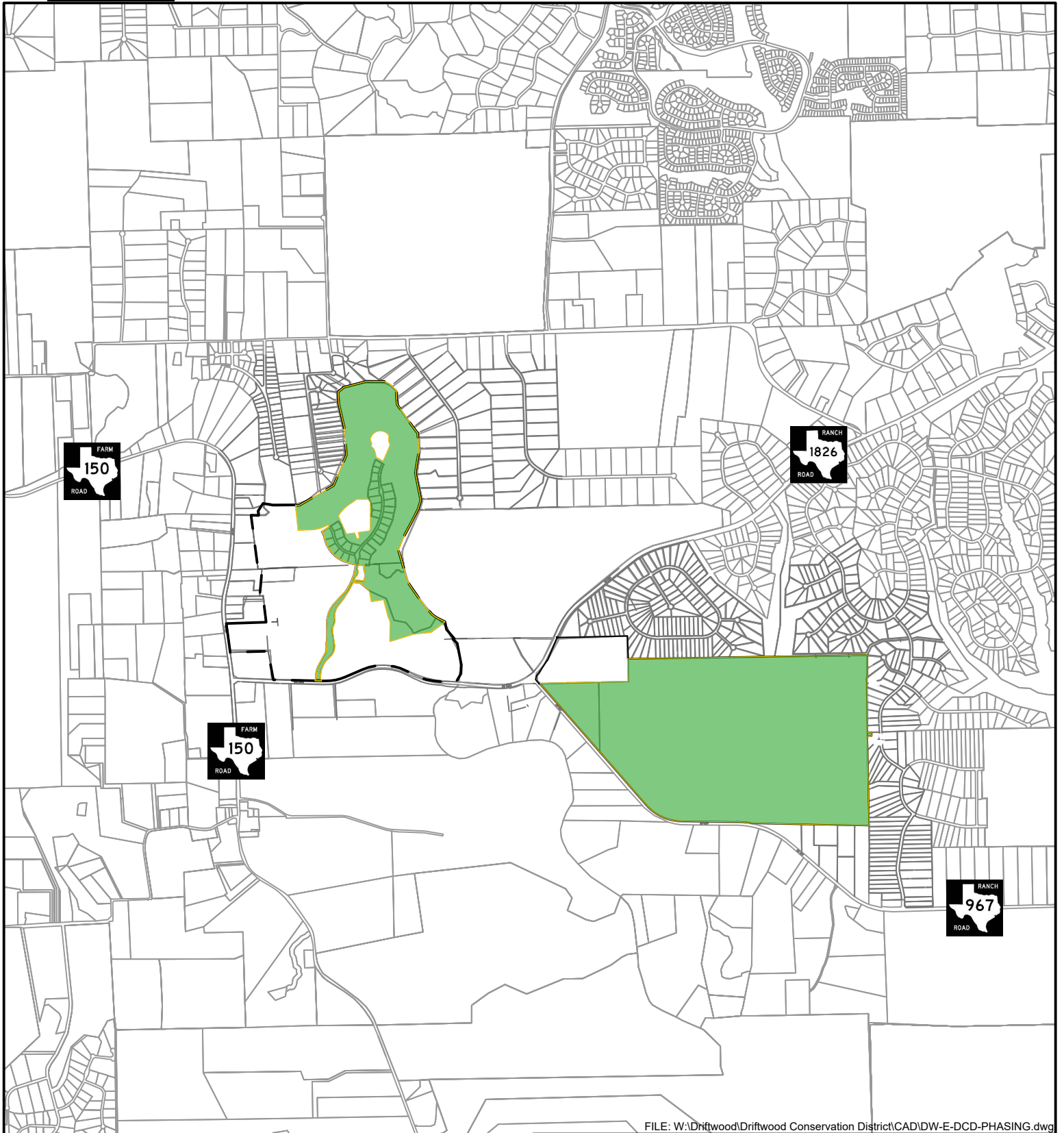
(e) All of the homes under construction are being constructed on lots owned by individuals or third-party users.

(f) Approximately 107 lots of the 145 total vacant developed lots are owned by individuals or third-party users.

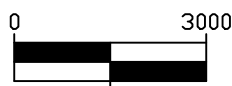
Amenities Serving the District

Amenities currently serving Driftwood Golf and Ranch Club include the following: (i) an 18-hole championship-level golf course; (ii) various comfort stations situated throughout the golf course containing on-course dining and entertainment; (iii) practice facilities consisting of a 13-acre driving range, luxury teaching facilities, and a 6-acre short course; (iv) an on-course pro-shop and retail center; (v) approximately five (5) miles of on-site hike and bike trails; and (vi) onsite vineyards, organic gardens, and a greenhouse dining, lounge, and private event facility. Future amenities planned for Driftwood Golf and Ranch Club include a 15,000 square foot clubhouse serving the golf course containing locker rooms, lounge areas, and dining facilities, as well as a spa, wellness, and fitness center.


LOCATION MAP



FILE: W:\Driftwood\Driftwood Conservation District\CAD\DW-E-DCD-PHASING.dwg



SCALE: 1" = 3,000'

			
Murfee Engineering Company Texas Registered Engineering Firm F-353 1101 Capital of Texas Highway South, Building D, Suite 110, Austin, Texas 78746, (512) 327-9204			
DRIFTWOOD CONSERVATION DISTRICT LOCATION MAP			
DATE:	1/30/2024	JOB NO.	18-004-11
DESIGNED BY:	AVP	DRAWN BY:	RLW
		CHECKED BY:	AVP
TAB:	lctn map		

FILE: W:\Driftwood\Driftwood Conservation District\CAD\DW-E-DCD-PHASING.dwg

THE DEVELOPER

Role of a Developer

In general, the activities of developers in a utility district, such as the District, include purchasing the land within a district, designing the streets 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, and selling improved lots and commercial reserves to builders, other developers or other third parties. In most instances, a developer will be required to pay up to 30% of the cost of financing certain water, wastewater and drainage facilities in the utility district exclusive of water and sewage treatment plants, pursuant to the rules of the TCEQ. In addition, a developer is ordinarily the major taxpayer within a utility district during the property development phase and the developer's inability to pay the taxes assessed on its property within a district would have a materially adverse effect on the revenues of the district. The relative success or failure of a developer to perform development activities within a utility district may have a profound effect on the ability of the district to generate sufficient tax revenues to service and retire all tax bonds issued by the district. While a developer generally commits to pave streets and pay its allocable portion of the costs of utilities to be financed by the utility district through a specific bond issue, a developer is generally under no obligation to a district to undertake development activities with respect to other property that it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a district.

Description of the Developer

The development project within the District is being implemented by Discovery Land Company, a US-based real estate developer and operator of private residential club communities and resorts with a portfolio of domestic and international projects. The developer of the District is Driftwood Golf Club Development, Inc. (the "Developer"), a Delaware (S) corporation that was established for the purpose of developing approximately 953 acres of land, of which approximately 737 acres are located within the boundaries of the District. The Developer's shareholders are comprised of a number of individual investors with a multitude of real estate investment history. The Developer purchases phases of the acreage within the District through installment sales from Driftwood Land Partners, LP, a Delaware limited partnership. The Developer and Driftwood Land Partners, LP have common investors and share the same management entity. Pursuant to a development management agreement (the "Management Agreement"), the Developer and Driftwood Land Partners, LP have contracted with Discovery Driftwood Management LLC, a Delaware limited liability company (the "Development Manager"), to provide for management of the day-to-day land development activities associated with the initiation and completion of the land development project within the District. The Management Agreement provides the Development Manager with responsibilities that include pre-development coordination and supervision of Developer's consultants and professionals, execution of the approved project plans and specifications, and supervision of lot marketing and sales.

The District is expected to include 333 single-family residential lots at ultimate development, of which 198 lots have heretofore been developed, including 160 lots that have been sold to individuals or third-party users and 38 lots that are owned by the Developer. Additionally, the Developer reports that 29 lots are currently under construction and are expected to be available for homebuilding during the second quarter of 2024. According to the Developer, 33.6% of all lots require the purchasers of such lots to contract with the Developer to build the home (the "Developer Lots") and the remaining 66.4% of all lots are sold in a manner such that the owner may select any builder and design team (the "Custom Lots"). There are no building requirements on the Custom Lots, while there are building stipulations in place for the Developer Lots, including requirements for the timing in which homebuilding construction must commence. Lot prices have ranged from \$550,000 to \$4,000,000 depending upon lot size and location within the District. Driftwood Land Partners, LP currently retains ownership of certain acreage within the District, which is expected to be developed into approximately 28 single-family residential lots based on current land plans; no specific development plans for such 28 lots exists at this time.

Developer Financing

As noted above, the Developer has been purchasing phases of the original 953 acres through installment sales from its related party, Driftwood Land Partners, LP. The result of such installment sales is a mortgage with the seller secured by a deed of trust, with specified release prices for each lot sold. Interest is accrued on an annual basis with a final maturity date of five (5) years from the date of sale. No interest payments are required until maturity.

All development costs from inception to July 2020 were funded entirely by the initial capital contributions of the shareholders/partners, and the sale of lots. In July 2020, the Developer closed a \$25,000,000 development loan with its majority owner. Due to the sales activity at the end of 2020, and throughout 2021, the Developer paid off the loan by December 31, 2021. All development costs since have been funded by lot sales. The Developer expects that it will enter into a new \$25,000,000 development loan that will be secured by unsold inventory with specified release prices for each lot.

The Developer is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District and the description of the financing arrangements or financial condition of the Developer herein should not be construed as an implication to that effect. The Developer has no legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the Developer's financial condition is subject to change at any time. Financial information for the Developer is included in Appendix C, but such information was provided by the Developer and has not been independently verified by the District. For more detailed information concerning the Developer's finances and operations, see "APPENDIX C – FINANCIAL INFORMATION CONCERNING THE DEVELOPER."

Homebuilders

The current homebuilders in the District include a collection of various custom homebuilders from both the Austin area, as well as custom homebuilders from out of state. Such homebuilders (referred to herein as the “Homebuilders”) have experience in the custom homebuilding industry. The Homebuilders are constructing homes ranging in size from 3,500 square feet to 14,900 square feet and completed homes in the District are being marketed in prices ranging from \$6,000,000 to \$12,000,000. See “THE DISTRICT – Status of Residential Development.”

Future Development

As noted above, Driftwood Land Partners, LP currently retains ownership of certain acreage within the District, which is expected to be developed into approximately 28 single-family residential lots based on current land plans. However, no specific development plans for such 28 lots exist at this time. As stated elsewhere in this Official Statement, the Developer has no commitment or obligation to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District. Future development and homebuilding depend, in part, upon short-term and long-term interest rates, availability of mortgage and development funds, labor conditions, and general economic conditions. Neither the District nor the Developer represent that the development of the remaining developable acreage will ever be undertaken nor that any taxable improvements will ever be constructed thereon. See “RISK FACTORS – Economic Factors and Interest Rates” and “– Landowners/Developer Under No Obligation to the District.”

THE SYSTEM

Regulation

According to the District’s engineer, Murfee Engineering Company, Inc. (the “Engineer”), the District’s water distribution, wastewater collection, storm drainage, and detention facilities (the “System”) have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City, and Hays County.

Operations of the water and wastewater systems serving the District are provided by the City. The water supply and wastewater treatment facilities serving the District are subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. Certain of the regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Utility Agreement with the City of Dripping Springs

Water supply and wastewater treatment facilities serving the District are provided by the City pursuant to the terms of a Retail Water and Wastewater Services Agreement (the “Service Agreement”) dated January 8, 2019, and to continue for a period of 45 years. The Service Agreement was entered into by and between the City, the District, and the Developer’s predecessor in interest. The term of the Service Agreement may be extended by mutual agreement of the District and the City. The Service Agreement provides that the Developer (on behalf of the District) or the District will design, finance, and construct all of the water and wastewater facilities required to serve the District in accordance with the applicable City requirements and design standards and other regulatory standards pertaining to such facilities. The Service Agreement provides that upon completion of the construction of the water and wastewater facilities constructed by or on behalf of the District, and following the City’s acceptance of such facilities, such facilities are conveyed by the District to the City. In exchange for the conveyance of the water and wastewater facilities to serve the District, the City agrees to operate and maintain all water and wastewater facilities conveyed and to provide retail water and wastewater services to customers within the District at the City’s standard water and wastewater rates. All of the system improvements needed to serve the developed portions of the District have been constructed by the Developer and approved by the City. The District will maintain an ownership interest in the capacity of water and wastewater system to ensure water and wastewater service.

The Service Agreement requires the City to provide the District with water supply and wastewater treatment capacity from the City’s system (as defined in the Service Agreement) capable of serving 610 living unit equivalents (“LUEs”) of water supply capacity and 1,000 LUEs of wastewater treatment capacity. The system improvements, such as the construction of an internal water distribution system, internal wastewater collection system, lift stations, and other system improvements, must be made by the Developer or the District.

Drainage System

The District is located within the Onion Creek watershed, which drains into the Colorado River. The District drains southeast to Onion Creek or northwest to an unnamed tributary. The District also includes natural areas, which have been enhanced to serve as water-quality structures. The drainage conveyance system to serve the portions of the District developed for residential purposes is complete. Storm water runoff in the residential portions of the District is collected using overland flow via roadside ditches into culverts which will convey the flows into water quality ponds or directly discharge into existing tributaries. In accordance with jurisdictional requirements, stormwater from the drainage system will be directed through an appropriate best management practice for water quality prior to entering into Onion Creek and eventually to the Colorado River. The design of the stormwater system is based on the

requirements of the City, Hays County, and the TCEQ. The District is also subject to a provision of a development agreement with the City, which requires a portion of the development to participate in rainwater harvesting from residential structures with an option to utilize a centralized collection system for injection into the ground via injection well.

100-Year Floodplain

According to the Engineer, approximately 93 acres in the District are located within the 100-year floodplain. However, none of such acreage is planned for single-family residential development.

General Fund Operating History

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. The information included in the table below relating to the District's operations is provided for information purposes only.

	Fiscal Year Ended September 30 (a)				
	2023	2022	2021	2020	2019
REVENUES					
Property taxes, including penalties	\$520,306	\$272,746	\$152,891	\$66,074	-
Interest and other	\$17,546	\$1,032	-	-	-
Developer advances (b)	\$575,114	\$240,192	\$57,196	\$5,000	\$13,000
TOTAL REVENUES	\$1,112,966	\$513,970	\$210,087	\$71,074	\$13,000
EXPENDITURES					
Repairs/maintenance	-	\$367	-	-	-
Director fees, including payroll taxes	\$9,331	\$8,712	\$8,889	\$6,620	\$6,943
Legal fees	\$178,689	\$83,175	\$95,343	\$4,400	-
Engineering fees	\$21,888	\$18,199	\$19,433	\$5,000	-
Accounting fees	\$25,500	\$14,400	\$14,400	\$11,050	-
Audit fees	\$9,750	-	-	-	-
Financial advisor fees	\$300	\$1,100	\$200	-	-
Other consulting fees	\$108,073	\$193,114	\$56,868	-	-
Tax appraisal/collection fees	\$2,936	\$1,833	\$1,034	\$933	-
Insurance	\$4,124	\$4,119	\$4,269	\$3,892	\$4,767
Other	\$2,584	\$2,565	\$292	\$1,412	\$765
Capital Outlay	\$488,363	\$50,074	-	-	-
TOTAL EXPENDITURES	\$851,538	\$377,658	\$200,728	\$33,307	\$12,475
NET CHANGE IN FUND BALANCE (c)	\$261,428	\$136,312	\$9,359	\$37,767	\$525

(a) Data is taken from District's audited financial statements. The financial statements of the District as of September 30, 2022, and for the year then ended, represent the first year of audited financial statements. The data for fiscal years 2021 and prior represents unaudited information. See "APPENDIX A."

(b) The District was funded by operating advances from the Developer for fiscal years 2023 and prior. As noted elsewhere in this Official Statement, the Developer has entered into an agreement with the District memorializing its obligation to make operating advances to the District as may be required from time to time. For the fiscal year ended September 30, 2023, the District received \$575,114 in operating advances from the Developer, which was primarily attributable to nonrecurring capital expenditures associated with certain wastewater line easement acquisitions. For the fiscal year ending September 30, 2024, the District's General Fund is currently budgeting \$350,000 of operating advances from the Developer. See "RISK FACTORS – Operating Funds."

(c) As of January 10, 2024, the District's General Fund had an unaudited cash and investment balance of \$330,715. For the fiscal year ending September 30, 2024, the District's General Fund is currently budgeting revenues of \$1,626,340, including \$350,000 of budgeted operating advances from the Developer, and expenditures of \$603,860.

MANAGEMENT OF THE DISTRICT

The District is governed by a board of directors (the "Board") which has control over and management supervision of all affairs of the District. None of the directors reside in the District; each of the directors owns a parcel of land in the District subject to a note and deed of trust. The current members and officers of the Board, along with their titles on the Board, are listed below.

<u>Name</u>	<u>Title</u>	<u>Expires May</u>
Stephen C. Dickman	President	2024
Sam Siddons	Vice President	2024
Danette R. Koebele	Secretary	2026
Jett Garner	Treasurer/Assistant Secretary	2026
Royce Wachsmann	Assistant Secretary	2026

The District does not employ a general manager or any other full-time employees. The District has contracted for utility system operating, bookkeeping, tax assessing and collecting services and annual auditing of its financial statements as follows:

Tax Assessor/Collector – The District's Tax Assessor/Collector is Assessments of the Southwest, Inc., who is employed under an annual contract to perform the District's tax collection functions.

Bookkeeper – The District has contracted with Bott and Douthitt, PLLC (the "Bookkeeper") for bookkeeping services.

Auditor – The financial statements of the District as of September 30, 2023, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's September 30, 2023, audited financial statements.

Operator – The water supply and wastewater treatment systems serving the District are operated by the City of Dripping Springs, Texas. See "THE SYSTEM – Utility Agreement with the City of Dripping Springs."

Engineer – The consulting engineer for the District is Murfee Engineering Company, Inc. (the "Engineer").

Financial Advisor – The GMS Group, L.L.C., serves as Financial Advisor to the District, and is paid an hourly fee for certain work performed for the District and a contingent fee to be computed on each separate issuance of bonds, if and when such bonds are delivered.

Bond Counsel – Winstead PC serves as Bond Counsel to the District and as counsel for the District on matters other than the issuance of bonds. Fees paid for the Bond Counsel services will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

General Counsel – Andy Barrett & Associates, PLLC, Dallas, Texas, serves as General Counsel to the District on matters relating to, and other than, the issuance of bonds. Fees paid for the General Counsel services will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

Disclosure Counsel – Orrick, Herrington & Sutcliffe LLP, Austin, Texas, has been engaged by the District to serve as Disclosure Counsel on certain matters related to the sale and delivery of the Bonds but such advice should not be relied upon by the purchasers as a due diligence undertaking on their behalf. Fees of the Disclosure Counsel will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

DISTRICT INVESTMENT POLICY

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield in its portfolio. Funds of the District are invested in short-term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third-party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the District portfolio.

DISTRICT DEBT

1/1/2024 Estimated Taxable Value	\$188,762,600	(a)
2023 Certified Taxable Value	\$130,276,438	(b)
Direct Debt:		
The Bonds	<u>\$8,400,000</u>	(c)
Total Direct Debt	\$8,400,000	
Estimated Overlapping Debt	<u>\$8,665,305</u>	(d)
Direct and Estimated Overlapping Debt	\$17,065,305	(d)
Percentage of Direct Debt to:		
1/1/2024 Estimated Taxable Value	4.45%	
2023 Certified Taxable Value	6.45%	
Percentage of Direct and Estimated Overlapping Debt to:		
1/1/2024 Estimated Taxable Value	9.04%	
2023 Certified Taxable Value	13.10%	
2023 Tax Rate Per \$100 of Assessed Value:		
Utility Debt Service Tax	\$0.00	(e)
Maintenance Tax	<u>\$1.00</u>	
Total 2023 Tax Rate	\$1.00	
Cash and Temporary Investment Balances:		
General Fund (as of January 10, 2024)	\$330,715	(f)
Utility Debt Service Fund	\$503,000	(g)

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- (a) Reflects data supplied by Hays CAD. The Estimated Taxable Value as of January 1, 2024, was prepared by Hays CAD and provided to the District. Such value is not binding on Hays CAD. Any new value since January 1, 2023 will not be included on the District's tax roll until the 2024 tax roll is prepared and certified by Hays CAD during the second half of 2024. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the January 1, 2023 Certified Taxable Value according to data supplied to the District by Hays CAD. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (c) The Bonds represent the first series of bonds to be issued by the District.
- (d) See "Estimated Overlapping Debt" herein.
- (e) The Bonds represent the first series of bonds to be issued by the District to finance the acquisition or construction of a water, wastewater, and drainage system. The District intends to levy a utility debt service tax beginning with its 2024 tax rate.
- (f) Unaudited figure per the District's records. See "RISK FACTORS – Operating Funds" and "THE SYSTEM – General Fund Operating History."
- (g) The cash and investment balance in the Utility Debt Service Fund represents \$503,000 of capitalized interest to be funded with proceeds of the Bonds and to be deposited into such fund on the date of delivery of the Bonds. See "USE OF BOND PROCEEDS." Neither Texas law nor the District's Bond Order require that the District maintain any particular balance in the Utility Debt Service Fund. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue" and "THE BONDS – Funds."

Estimated Overlapping Debt

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in the "Texas Municipal Reports," published by the Municipal Advisory Council of Texas and from information obtained directly from certain jurisdictions. Except for the amounts 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, the amount of which has not been reported. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

<u>Taxing Jurisdiction</u>	<u>Approximate Outstanding Debt</u>	<u>Overlapping Debt</u>	
		<u>Overlapping %</u>	<u>Amount</u>
Hays County	\$500,251,919	0.27%	\$1,350,680
Hays Consolidated Independent School District	\$916,140,000	0.78%	\$7,145,892
Austin Community College District	\$562,445,000	0.03%	\$168,733
Total Estimated Overlapping Debt			\$8,665,305
The District (a)			<u>\$8,400,000</u>
Total Direct and Estimated Overlapping Debt			\$17,065,305

(a) Represents the Bonds.

DISTRICT TAX DATA

Tax Rate and Collections

The following table sets forth the historical tax collection experience of the District for the years 2019 through 2022, and includes certain information relative to the 2023 tax year. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<u>Tax Year</u>	<u>Taxable Valuation (a)</u>	<u>Tax Rate (b)</u>	<u>Tax Levy</u>	<u>Cumulative Tax Collections (c)</u>	<u>Tax Year Ended September 30</u>
2023	\$130,276,438	\$1.00	\$1,302,764	(d)	(d)
2022	\$51,447,809	\$1.00	\$514,478	100%	2023
2021	\$27,159,659	\$1.00	\$271,597	100%	2022
2020	\$15,187,706	\$1.00	\$151,877	100%	2021
2019	\$6,605,270	\$1.00	\$66,053	100%	2020

(a) See "Analysis of Tax Base" herein.

(b) See "Tax Rate Distribution" herein.

(c) Represents cumulative collections as of September 30, 2023.

(d) The 2023 tax levy is in the process of collections; such taxes become delinquent if not paid before February 1, 2024. See "TAXING PROCEDURES."

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance and operation of the District and its facilities. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds, and any tax bonds that may be issued in the future. The District's voters authorized a maintenance tax of up to \$1.00 per \$100 of assessed valuation at an election held on November 6, 2018. See "– Tax Rate Distribution" herein.

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and any future utility bonds. See "– Tax Rate Distribution" herein.

Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2019 through 2023.

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Utility Debt Service (a)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Maintenance/Operation	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>
Total	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>

(a) The Bonds represent the first series of bonds to be issued by the District to finance the acquisition or construction of a water, wastewater, and drainage system. The District intends to levy a utility debt service tax beginning with its 2024 tax rate.

Additional Penalties

The District has the authority to contract with a 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 May 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.

Principal Taxpayers

The list of principal taxpayers for 2023 and the other information provided by this table were provided by Hays CAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of Hays CAD.

<u>Property Owner</u>	<u>Property Description</u>	<u>Property Value</u>	<u>% of Total</u>
Driftwood Golf Club Development Inc (a)	Land and Improvement	\$33,429,990	25.66%
Driftwood Golf Club LP (a)	Land	\$27,034,400	20.75%
Driftwood Spec Investors LLC (b)	Land and Improvement	\$6,108,460	4.69%
Driftwood Three Vines LLC	Land and Improvement	\$3,464,530	2.66%
SPV Driftwood Gold Lot 3 LLC	Land and Improvement	\$3,252,700	2.50%
JPD Driftwood Holdings LLC (b)	Land	\$3,090,560	2.37%
Driftwood DLC Investor I LP (a)	Land and Improvement	\$2,763,740	2.12%
Reid 2021 Irrevocable Trust	Land and Improvement	\$2,436,740	1.87%
Just Drift LLC (b)	Land and Improvement	\$2,043,440	1.57%
Homeowner	Land and Improvement	<u>\$1,822,660</u>	<u>1.40%</u>
TOTALS		<u>\$85,447,220</u>	<u>65.59%</u>

(a) Represents entities that are directly related to the Developer. See "THE DEVELOPER."

(b) Represent entities containing shareholders/partners that overlap with the Developer, but are not directly related to or within the same organizational chart as the Developer.

Analysis of Tax Base

Based on information provided to the District by Hays CAD and its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the deferments for 2019 through 2023, and includes the January 1, 2024 Estimated Taxable Value.

<u>Tax Roll Year</u>	<u>Type of Property</u>			<u>Gross Valuations</u>	<u>Exemptions</u>	<u>Taxable Valuations</u>	
	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>				
1/1/2024						\$188,762,600	(a)
2023	\$108,790,120	\$21,266,670	\$2,118,518	\$132,175,308	\$1,898,870	\$130,276,438	(b)
2022	\$51,483,600	\$0	\$1,674,269	\$53,157,869	\$1,710,060	\$51,447,809	
2021	\$27,728,400	\$117,730	\$166,929	\$28,013,059	\$853,400	\$27,159,659	
2020	\$15,754,760	\$117,730	\$17,586	\$15,890,076	\$702,370	\$15,187,706	
2019	\$6,782,040	\$117,730	\$0	\$6,899,770	\$294,500	\$6,605,270	

(a) Reflects data supplied by Hays CAD. The Estimated Taxable Value as of January 1, 2024, was prepared by Hays CAD and provided to the District. Such value is not binding on Hays CAD. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."

(b) Reflects the January 1, 2023 Certified Taxable Value according to data supplied to the District by Hays CAD. Such value excludes \$5,596,163 of uncertified taxable value that is still in the certification process. See "TAXING PROCEDURES."

Estimated Overlapping Taxes

The following table sets forth all 2023 taxes levied by overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<u>Taxing Entities</u>	<u>2023 Tax Rate</u>
Austin Community College District	\$0.098600
Hays Consolidated Independent School District	\$1.156900
Hays County	\$0.287500
Hays County Special Road District	\$0.020000
North Hays County Emergency Services District No. 1	\$0.030100
Hays County Fire Emergency Services District No. 6	<u>\$0.064920</u>
Overlapping Taxes	\$1.658020
 The District	 <u>\$1.000000</u>
Total Direct & Overlapping Taxes	\$2.658020

Tax Adequacy of Tax Revenue

The calculations shown below are solely for the purpose of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District's Operating Fund to the Utility Debt Service Fund, and no increase or decrease in assessed valuation over the January 1, 2024 Estimated Taxable Value and the 2023 Certified Taxable Value and utilize a tax rate adequate to service the District's total debt service requirements after issuance of the Bonds.

Maximum Annual Debt Service Requirements (2050)..... \$586,859

Requires a \$0.33 debt service tax rate on the January 1, 2024 Estimated Taxable Value
at 95% collection..... \$591,771

Requires a \$0.48 debt service tax rate on the 2023 Certified Taxable Value
at 95% collection..... \$594,061

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal and interest on the Bonds and any additional bonds payable from taxes that the District has previously or 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 in this Official Statement under the caption "THE BONDS – Source of and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations if authorized by the voters in the District. See "DISTRICT TAX DATA – Maintenance Tax."

Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized here. The Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Hays Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Hays County, including the District. Such appraisal values are subject to review and change by the Hays County Appraisal Review Board (the "Appraisal Review Board"). The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

Exempt Property

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may, by its own action, an action which to

date the District has not undertaken, exempt certain property owned by qualified organizations engaged primarily in charitable activities, residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who 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. Such exemption would be transferable to a subsequent resident 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 Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt and the reduction or cessation of the levy would impair the obligation of the contract by which the debt was created, then the Board may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged. To date, the Board has not granted a residential homestead exemption.

Freeport Goods and Goods-in-Transit Exemptions. A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property as defined by the Tax Code. The exemption excludes oil, natural gas, petroleum products, aircraft, and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicles, dealer's heavy equipment, and retail manufactured housing inventory. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is further limited to tangible personal property acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. For tax year 2012 and subsequent years, a taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property but may choose to exempt same in the future by further official action.

Tax Abatement

Hays County or the City of Dripping Springs may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of Dripping Springs, Hays County, or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction, including the District, has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. The District has not entered into any tax abatement agreements.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Hays CAD at market value as of January 1 of each year. Once an appraisal roll is prepared and formally approved by the Appraisal Review Board, it is used by the District in establishing its tax roll and

tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code.

The Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a landowner of qualified open-space land is a member of the United States Armed Forces, subject to certain conditions, the appraisal of the land as qualified open-space land does not change while the landowner is deployed or stationed outside of Texas. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

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

Assessment and Levy

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity or private tax assessor/collector approved by the Board. Each year the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due when billed and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. In addition, if the District engages an attorney for the collection of delinquent taxes, the Board may impose a further penalty not to exceed twenty percent (20%) on all taxes, penalty, and interest unpaid on July 1. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

District and Taxpayer Remedies

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

The 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 Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings that restrict the collection of taxpayer debts. The District's ability to foreclose its tax lien

or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "RISK FACTORS – Tax Collections" and "– Bankruptcy Limitation to Registered Owners' Rights."

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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

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

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

The District. A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District is made by the Board of Directors on an annual basis. The Board of Directors designated the District as a Developing District for purposes of setting the 2023 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

THE BONDS

General

The Bond Order authorizes the issuance and sale of the Bonds and prescribes terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District. Set forth below is a summary of certain provisions of the Bond Order. Capitalized terms in such summary are used as defined in the Bond Order. Such summary is not a complete description of the entire Bond Order and is qualified in its entirety by reference to the Bond Order, copies of which are available from the District's Bond Counsel upon request.

The Bonds are dated and will bear interest from March 1, 2024, at the per annum rates shown on the cover page hereof. The Bonds are fully registered bonds maturing on April 1 in the years and in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable October 1, 2024, and each April 1 and October 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY-SYSTEM" herein.

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

Optional Redemption

The District reserves the right to redeem, prior to maturity, the Bonds maturing on or after April 1, 2030, in whole or in part from time to time, on April 1, 2029, or on any date thereafter, at a price of par plus accrued interest to the date of redemption. If fewer than all of the Bonds are to be redeemed, the particular Bonds to be redeemed will be selected by the District. If fewer than all of the Bonds within any one maturity are redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random selection method. Notice of each exercise of the right of redemption will be given at least thirty days prior to the date fixed for redemption by providing written notice to each registered securities depository and national information service. When Bonds have been called for redemption, they will become due and payable on the redemption date.

Mandatory Redemption

The Bonds maturing on April 1 in the year 2042, 2044, and 2047 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown in the tables below.

\$740,000 Term Bonds, due April 1, 2042

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2041	\$360,000
April 1, 2042 (maturity)	\$380,000

\$820,000 Term Bonds, due April 1, 2044

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2043	\$400,000
April 1, 2044 (maturity)	\$420,000

\$1,410,000 Term Bonds, due April 1, 2047

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2045	\$445,000
April 1, 2046	\$470,000
April 1, 2047 (maturity)	\$495,000

Notice of Redemption; Partial Redemption

While the Bonds are in book-entry-only form, pursuant to the Bond Order, the Term Bonds will be scheduled for annual mandatory sinking fund redemption by DTC in accordance with its procedures. If the book-entry-only system is discontinued, the Paying Agent/Registrar shall select by lot the Term Bonds, if any, to be redeemed and issue a notice of redemption in the manner provided below. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of each exercise of the right of redemption will be given at least 30 calendar days prior to the date fixed for redemption by the mailing of a notice by the Paying Agent/Registrar to each of the registered owners of the Bonds to be redeemed at the address shown on the records of the Paying Agent/Registrar on the date which is 45 calendar days prior to the redemption date. When Bonds have been called for redemption, the right of the registered owners of such Bonds to collect interest which would otherwise accrue after the date for redemption will be terminated.

The Bonds of a denomination larger than \$5,000 in principal amount may be redeemed in part (\$5,000 in principal or any integral 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.

Source of and Security for Payment

The Bonds are secured by and payable from the levy of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property in the District. In the Bond Order, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Paying Agent/Registrar fees, and Appraisal District fees. The Bonds are obligations of the District and are not the obligations of the State of Texas, Hays County, the City of Dripping Springs, or any entity other than the District.

Defeasance

Any Bond and the interest thereon will be deemed to be paid, retired, and no longer outstanding (a "Defeased Bond") within the meaning of the Bond Order, when payment of the principal of such Bond, plus interest thereon to the due date (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) has been made or caused to be made in accordance with the terms of the Bond Order (including the giving of any required notice of redemption) or (ii) has been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (1) lawful money of the United States of America sufficient to make such payment and/or (2) Government Obligations which mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the District with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds have become due and payable. At such time as a Bond is deemed to be a Defeased Bond, such Bond and the interest thereon will no longer be secured by, payable from, or entitled to the benefits of the ad valorem taxes levied and pledged, as provided in the Bond Order, and such principal and interest shall be payable solely from such money and/or Government Obligations.

The term "Government Obligations" as used in this Section, means all obligations authorized for defeasance purposes under Texas law, currently: (a) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States; (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 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 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.

There is no assurance that the current law will not be changed in a manner which would permit other investments to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as currently permitted under Texas law.

Funds

In the Bond Order, the Utility Debt Service Fund is created, and the proceeds from all taxes levied, appraised, and collected for and on account of the Bonds authorized by the Bond Order, and any additional bonds attributable to water, sewer, and drainage, payable from taxes which may be issued in the future by the District, shall be deposited as collected in such fund.

Accrued interest and capitalized interest on the Bonds shall be deposited into the Utility Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Utility Capital Projects Fund to be used for the purpose of reimbursing the Developer for certain costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Utility Capital Projects Fund after paying the above costs will be used as described in the Bond Order or ultimately transferred to the Utility Debt Service Fund.

Paying Agent/Registrar

Pursuant to the Bond Order, the initial paying agent and initial registrar with respect to the Bonds is BOKF, N.A., located in Dallas, Texas. The District will maintain at least one Paying Agent/Registrar, where the Bonds may be surrendered for transfer and/or for exchange or replacement for other Bonds, and for the purpose of maintaining the Bond Register on behalf of the District. The Paying Agent/Registrar is required at all times to be a duly qualified banking corporation or association organized and doing business under the laws of the United States of America, or of any state thereof, and subject to supervision or examination by federal or state banking authorities.

The District reserves the right and authority to change any paying agent/registrar and, upon any such change, the District covenants and agrees in the Bond Order to promptly cause written notice thereof, specifying the name and address of such successor paying agent/registrar, to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid.

Registration and Transfer

In the event the Book-Entry-Only System should be discontinued, the Bonds will be transferable only on the Bond Register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the operations office

of the Paying Agent/Registrar in Dallas, Texas. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds. Every Bond presented or surrendered for transfer is required to be duly endorsed, or be accompanied by a written instrument of transfer, in a form satisfactory to the Paying Agent/Registrar. Neither the Paying Agent/Registrar nor the District is required (1) to transfer or exchange any Bond during the period beginning at the opening of business on a Record Date (defined herein) and ending at the close of business on the next succeeding interest payment date, or (2) to transfer or exchange any Bond selected for redemption in whole or in part beginning fifteen (15) calendar days prior to and ending on the date of mailing of the notice of redemption or, where such redemption is scheduled to occur, within forty-five (45) days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Lost, Stolen, or Destroyed Bonds

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

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is quoted 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 authorities, 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 authorities, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any un-matured 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.

Issuance of Additional Debt

The District expects to issue additional bonds to finance road and water, wastewater, and storm drainage facilities as soon as feasible and from time-to-time in order to fully reimburse the Developer for advances made by the Developer to construct roads and water, wastewater, and storm drainage facilities. The District's voters have authorized the issuance of a total of \$213,039,000 of unlimited tax utility bonds, and \$48,863,000 of unlimited tax road bonds and could authorize additional amounts. The District is also authorized to issue unlimited tax refunding bonds in an amount equal to \$244,995,000 for the purpose of refunding utility bonds and \$56,192,000 for the purpose of refunding road bonds. The Board is further empowered to borrow money for any lawful purpose and to issue bond anticipation and tax anticipation notes. Following the issuance of the Bonds, \$204,639,000 of unlimited tax utility bonds and \$244,995,000 of unlimited tax utility refunding bonds, and \$48,863,000 of unlimited tax road bonds and \$56,192,000 of unlimited tax road refunding bonds will remain authorized and unissued. See "RISK FACTORS – Future Debt."

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. The District does not employ any formula with respect to the issuance of additional bonds, but currently must comply with formulas promulgated by the Attorney General of the State of Texas with regard to bonds issued for road purposes, and the TCEQ with regard to bonds issued for water, wastewater, and storm drainage purposes, pertaining to assessed valuation and tax rates of the District that may limit the amount of bonds which may be issued in the future. The total amount of bonds and other obligations of the District issued for road purposes, together with the District's proportionate amount of overlapping road debt, may not exceed one-fourth of the assessed valuation of the real property in the District. All bonds issued by the District must be approved by the Attorney General of the State of Texas. With certain limited exceptions, any bonds issued to acquire or construct water, wastewater, and storm drainage facilities must additionally be approved by the TCEQ.

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) consent from the City of Dripping Springs in whose extraterritorial jurisdiction the District is located; (3) approval of master plan and bonds by the TCEQ; and (4) approval of bonds by the Attorney General of Texas. The Board has not considered seeking authorization to engage in fire-fighting activities at this time but may do so in the future. If additional debt obligations for fire-fighting purposes are issued in the future by the District, such issuance may adversely affect the investment security of the Bonds.

The District does not have the statutory authority to issue bonds supported by ad valorem taxes for the development of parks and recreational facilities.

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

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

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

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

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

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

The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor or the Initial Purchaser takes any responsibility for the accuracy thereof. Termination by the District of the DTC Book-Entry-Only System may require consent of DTC Participants under DTC Operational Arrangements.

LEGAL MATTERS

Legal Opinions

The District will furnish the Initial Purchaser a transcript (the "Transcript") of certain certified proceedings incident to the issuance and authorization of the Bonds. Such Transcript will include the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of the Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without limit as to rate or amount, upon all taxable property in the District. The District will also furnish the approving legal opinion of Winstead PC, Austin, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations discussed herein, interest on the Bonds is excludable from gross income for federal income tax purposes and is not subject to the alternative minimum tax on individuals; however, such interest is taken into account in determining the "annual adjusted financial statement income" (as defined in section 56A of the Code) of "applicable corporations" (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations. See "TAX MATTERS." Bond Counsel's fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, as disclosure counsel to the District.

Legal Review

In its capacity as Bond Counsel, Winstead PC, has reviewed the information appearing in this Official Statement under the captions "CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12," "THE DISTRICT – Authority," "TAXING PROCEDURES," "THE BONDS," "TAX MATTERS" and "LEGAL MATTERS – Legal Opinions" (to the extent such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the procedures and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of any of the other information contained herein. 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, other than the matters discussed immediately above.

Andy Barrett & Associates, PLLC, serves as General Counsel to the District on matters relating to, and other than, the issuance of bonds. The legal fees paid to Bond Counsel and General Counsel for services rendered in connection with 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

On the date of delivery of the Bonds, the District will execute and deliver a certificate to the effect that there is not pending, and to the knowledge of the District, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

TAX MATTERS

Opinion

Winstead PC, Bond Counsel, will render its opinion that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of preference for purposes of the alternative minimum tax; however, such interest is taken into account in determining the “annual adjusted financial statement income” (as defined in section 56A of the Code) of “applicable corporations” (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations. See “APPENDIX D – Form of Bond Counsel’s Opinion.”

Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) establishes certain requirements that must be met at and subsequent to the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, yield, and other restrictions on the investment of gross proceeds and other amounts, and the arbitrage rebate requirement that certain earnings on gross proceeds be rebated to the federal government. Failure to comply with these continuing requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The District has covenanted to comply with certain procedures, and has made certain representations and certifications designed to assure compliance with these Code requirements. In rendering its opinion, Bond Counsel will rely on these covenants, on representations and certifications of the District relating to matters solely within its knowledge (which Bond Counsel has not independently verified), and will assume continuing compliance by the District.

The statutes, regulations, published rulings, and court decisions on which Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the “Service”). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the Bonds. No ruling concerning the tax treatment of the Bonds has been sought from the Service, and the opinion of Bond Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service’s view, interest on such tax-exempt obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit were to be commenced, under current procedures, the Service would treat the District as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the Bonds, the District might have different or conflicting interests from those of the owners of the Bonds.

An “applicable corporation” (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its “adjusted financial statement income” (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation’s “adjusted financial statement income,” ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the reporting of certain information to the United States Treasury, and rebating any arbitrage profits to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

The opinions set forth above are based on existing law and Bond Counsel’s knowledge of relevant facts on the date of issuance of the Bonds. Such opinions are an expression of professional judgment and are not a guarantee of result. Except as stated above, Bond Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the Bonds. Further, Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention or any changes in law that may occur after the issuance date of the Bonds. In addition, Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the Bonds may affect the tax-exempt status of interest on the Bonds.

Original Issue Discount

Certain of the Bonds (the “Discount Bonds”) may be offered and sold to the public at an “original issue discount” (“OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of such Bonds. In general, the issue

price of Discount Bonds is the first price at which a substantial amount of Discount Bonds of the same maturity are sold to the public (other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers).

For federal income tax purposes, OID accrues to the owner of a Discount Bond over such Discount Bond's period to maturity based on the constant interest rate method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). Bond Counsel is of the opinion that the portion of OID that accrues during the ownership period of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as is other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, sale, or other disposition of that Discount Bond. OID may be treated as continuing to accrue even if payment of the Discount Bonds becomes doubtful in the event that the District encounters financial difficulties, and it is treated as interest earned by cash-basis owners, even though no cash corresponding to the accrual is received in the year of accrual. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond.

The federal income tax consequences of the acquisition, ownership, redemption, sale, or other disposition of Discount Bonds not purchased in the initial offering at the initial offering price may be determined according to rules different from those described above. Owners of such Discount Bonds should consult their tax advisors regarding the federal, state, and local income tax treatment and consequences of acquisition, ownership, redemption, sale, or other disposition of such Discount Bonds.

Original Issue Premium

Certain maturities of the Bonds (the "Premium Bonds") may be offered and sold to the public at prices greater than their stated redemption prices (the principal amount) payable at maturity ("Bond Premium"). In general, under section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Collateral Tax Consequences Summary

The following discussion is a brief discussion of certain collateral federal income tax consequences resulting from the purchase, ownership, or disposition of the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. This discussion is based on existing statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification, retroactively. Prospective investors should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by section 884 of the Code.

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

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

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

State, Local and Foreign Taxes

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

Changes in Law

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of section 265(b)(3)(B) of the Code. "Qualified tax-exempt obligations" under section 265(b)(3) of the Code affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under section 265(b)(2) of the Code.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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 provisions.

OFFICIAL STATEMENT

Sources of Information

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

Financial Advisor

The GMS Group, L.L.C. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, The GMS Group, L.L.C. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this Official Statement, the District has relied upon the following consultants.

Engineer – The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM" and "USE OF BOND PROCEEDS," and certain engineering matters included in "THE DISTRICT – Description and Location" and certain matters under the headings "THE DISTRICT – Summary of Land Use" and "– Status of Residential Development" (excluding house count information which has been provided by the Developer) have been provided by Murfee Engineering Company, Inc., and have been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

Tax Assessor/Collector – The information contained in this Official Statement relating to the estimated assessed valuation of property and, in particular, such information contained in the section captioned "DISTRICT TAX DATA," has been provided by the

Appraisal District and by Assessments of the Southwest, Inc., in reliance upon their authority as experts in the field of tax assessing and appraising.

Auditor – The financial statements of the District as of September 30, 2023, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's September 30, 2023, audited financial statements.

Continuing Availability of Financial Information

Pursuant to Texas law, the District has its financial statements prepared in accordance with generally accepted accounting principles and has its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District's audited financial statements are required to be filed with the TCEQ within 135 days after the close of its fiscal year.

The District's financial records and audited financial statements are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Winstead PC, 401 Congress Avenue, Suite 2100, Austin, Texas, 78701.

Certification as to Official Statement

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

Updating of Official Statement

The District will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, in the other matters described in the Official Statement, until the delivery of the Bonds. All information with respect to the resale of the Bonds shall be the responsibility of the Initial Purchaser.

MISCELLANEOUS

All estimates, statements and assumptions in this Official Statement and the Appendices hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statement in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated is intended as such and not a representation of fact and no representation is made that any such statement will be realized.

This Official Statement was approved by the Board of Directors of Driftwood Conservation District as of the date shown on the cover page.

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023

DRIFTWOOD CONSERVATION DISTRICT

YEAR ENDED SEPTEMBER 30, 2023

**FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT**

DRIFTWOOD CONSERVATION DISTRICT

**FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2023**

DRIFTWOOD CONSERVATION DISTRICT

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ANNUAL FILING AFFIDAVIT

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS
COUNTY OF HAYS

I, _____ of the
(Name of Duly Authorized District Representative)

DRIFTWOOD CONSERVATION DISTRICT
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the **10th day of January, 2024** its annual audit report for the fiscal year ended **September 30, 2023** and that copies of the annual audit report have been filed in the District's office, located at:

401 Congress Ave. Suite 2100 Austin, TX 78701
(Address of District's Office)

This annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements of Texas Water Code Section 49.194.

Date: _____, _____ By: _____
(Signature of District Representative)

(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this _____ day of _____, _____.

(SEAL)

(Signature of Notary)

My Commission Expires On: _____, _____.
Notary Public in the State of Texas

Form TCEQ-0723 (Revised 07/2012)

INDEPENDENT AUDITOR'S REPORT

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Driftwood Conservation District
Hays County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Driftwood Conservation District (the "District") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the District as of September 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule - General Fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

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

Other Information

Management is responsible for the Other Supplementary Information included in the annual report. The Other Supplementary Information does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the Other Supplementary Information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 10, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRIFTWOOD CONSERVATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2023

In accordance with Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), the management of Driftwood Conservation District (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2023. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's basic financial statements that follow.

FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the nonspendable and unassigned fund balance was \$445,391, an increase of \$261,428 from the previous fiscal year. General Fund revenues were \$537,852, expenditures were \$851,538 and other financing sources were \$575,114 for the fiscal year ending September 30, 2023.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenditures of \$147,995 in the current fiscal year. Net position increased from a deficit balance of \$94,142 at September 30, 2022 to a positive balance of \$53,853 at September 30, 2023.

OVERVIEW OF THE DISTRICT

Driftwood Conservation District, a political subdivision of the State of Texas, created by House Bill No. 4301, 85th Regular Session of the Texas Legislature, operates under and is governed by the provisions of Chapter 7982 of the Special District Local Laws Code, as amended. The District was created under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code for, among other purposes, financing the construction of the water, wastewater and drainage within its boundaries. In 2021, the 87th Session of the Texas Legislature with Senate Bill No. 2183 confirmed certain annexations and redefined the boundaries of the District which contain approximately 723 acres and is located in northern Hays County and is wholly within the extraterritorial jurisdiction of the City of Dripping Springs (the "City"). In April 2023, the District approved the addition of approximately 14 acres of land into the District, as consented to by the City.

DRIFTWOOD CONSERVATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2023

USING THIS ANNUAL REPORT

This annual report consists of five parts:

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

DRIFTWOOD CONSERVATION DISTRICT **MANAGEMENT'S DISCUSSION AND ANALYSIS** **YEAR ENDED SEPTEMBER 30, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Change Increase (Decrease)
	2023	2022	
Current and other assets	\$ 529,082	\$ 218,508	\$ 310,574
Non-current assets	1,225,990	761,311	464,679
Total Assets	<u>\$ 1,755,072</u>	<u>\$ 979,819</u>	<u>\$ 775,253</u>
Current liabilities	\$ 83,691	\$ 31,547	\$ 52,144
Long-term liabilities	1,617,528	1,042,414	575,114
Total Liabilities	<u>\$ 1,701,219</u>	<u>\$ 1,073,961</u>	<u>\$ 627,258</u>
Net Investment in Capital Assets	\$ (39,473)	\$ 34,285	\$ (73,758)
Unrestricted	93,326	(128,427)	221,753
Total Net Position	<u><u>\$ 53,853</u></u>	<u><u>\$ (94,142)</u></u>	<u><u>\$ 147,995</u></u>

The District's net position increased by \$147,995 during the 2023 fiscal year to \$53,853 at September 30, 2023 from the previous year's deficit balance of \$94,142.

**DRIFTWOOD CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Revenues and Expenses:

	<u>Summary Statement of Activities</u>		
	Governmental Activities		Change Increase (Decrease)
	<u>2023</u>	<u>2022</u>	
Property taxes	\$ 517,308	\$ 275,744	\$ 241,564
Interest and other	17,546	1,032	16,514
Total Revenues	<u>\$ 534,854</u>	<u>\$ 276,776</u>	<u>\$ 258,078</u>
Professional fees	\$ 344,200	\$ 309,988	\$ 34,212
Other	18,975	17,596	1,379
Depreciation	23,684	15,789	7,895
Total Expenses	<u>\$ 386,859</u>	<u>\$ 343,373</u>	<u>\$ 43,486</u>
Change in Net Position	\$ 147,995	\$ (66,597)	\$ 214,592
Beginning Net Position	(94,142)	(27,545)	(66,597)
Ending Net Position	<u>\$ 53,853</u>	<u>\$ (94,142)</u>	<u>\$ 147,995</u>

Revenues were \$534,854 for the fiscal year ended September 30, 2023 while expenses were \$386,859. Net position increased \$147,995 during the 2023 fiscal year.

For the fiscal year ended September 30, 2023, property tax revenues totaled \$517,308. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2022 tax year (September 30, 2023 fiscal year) were based upon a current assessed value of \$51,447,809 and a tax rate of \$1.00 per \$100 of assessed valuation. Property taxes levied for the 2021 tax year (September 30, 2022 fiscal year) were based upon a current assessed value of \$27,159,659 and a tax rate of \$1.00 per \$100 of assessed valuation. The tax rate levied is determined after the District's Board of Directors reviews the General Fund budget requirements and the debt service obligations of the District, if any. The District's primary revenue source is property taxes.

DRIFTWOOD CONSERVATION DISTRICT **MANAGEMENT'S DISCUSSION AND ANALYSIS** **YEAR ENDED SEPTEMBER 30, 2023**

ANALYSIS OF GOVERNMENTAL FUND

	<u>Governmental Fund by Year</u>	
	2023	2022
Cash and cash equivalent investments	\$ 489,968	\$ 215,510
Other	39,114	2,998
Total Assets	<u>\$ 529,082</u>	<u>\$ 218,508</u>
Accounts payable	\$ 83,691	\$ 31,547
Total Liabilities	<u>\$ 83,691</u>	<u>\$ 31,547</u>
Deferred Inflows of Resources	\$ -	\$ 2,998
Nonspendable	\$ 39,114	\$ -
Unassigned	406,277	183,963
Total Fund Balances	<u>\$ 445,391</u>	<u>\$ 183,963</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 529,082</u>	<u>\$ 218,508</u>

As of September 30, 2023, the District's governmental fund reflected a fund balance of \$445,391, a \$261,428 increase over the previous year.

BUDGETARY HIGHLIGHTS

The General Fund pays for daily operating expenditures. The Board of Directors adopted the 2023 budget on September 14, 2022. The budget included revenues of \$485,302 and other financing sources of \$350,000 as compared to expenditures of \$537,680 for the 2023 fiscal year. When comparing actual figures to budgeted amounts, the District had a negative net variance of \$36,194. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

CAPITAL ASSETS

The District's governmental activities had invested \$1,225,990 in land and easements and water, wastewater and drainage and road infrastructure. The detail is reflected in the following schedule:

	<u>Summary of Capital Assets, net</u>	
	9/30/2023	9/30/2022
Capital Assets:		
Land and easements	\$ 538,437	\$ 50,074
Entryway improvements	457,166	457,166
Waterline improvements	269,860	269,860
Less: Accumulated Depreciation	(39,473)	(15,789)
Total Net Capital Assets	<u>\$ 1,225,990</u>	<u>\$ 761,311</u>

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

**DRIFTWOOD CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2023**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The property tax assessed value for the 2023 tax year is approximately \$130 million. The fiscal year 2024 tax rate (2023 tax year) is \$1.00 on each \$100 of taxable value. All of the property tax collected during fiscal year 2024 will fund general operating expenses.

The adopted budget for fiscal year 2024 projects an operating fund balance increase of \$1,022,480.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Andy Barrett & Associates, PLLC and sent to 401 Congress Ave., Suite 2100, Austin, Texas 78701.

FINANCIAL STATEMENTS

**DRIFTWOOD CONSERVATION DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2023**

	General Fund	Adjustments Note 2	Government - Wide Statement of Net Position
<u>ASSETS</u>			
Cash and cash equivalents:			
Cash	\$ 77,571	\$ -	\$ 77,571
Cash equivalents	412,397	-	412,397
Prepaid expenditures	39,114	-	39,114
Capital assets, net of accumulated depreciation:			
Land and easements	-	538,437	538,437
Entryway improvements	-	426,688	426,688
Waterline improvements	-	260,865	260,865
TOTAL ASSETS	\$ 529,082	1,225,990	1,755,072
<u>LIABILITIES</u>			
Accounts payable	\$ 83,691	-	83,691
Long-term liabilities -			
Due to developer	-	1,617,528	1,617,528
TOTAL LIABILITIES	83,691	1,617,528	1,701,219
<u>FUND BALANCE / NET POSITION</u>			
Fund balance:			
Nonspendable	39,114	(39,114)	-
Unassigned	406,277	(406,277)	-
TOTAL FUND BALANCE	445,391	(445,391)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 529,082		
Net position:			
Net investment in capital assets		(39,473)	(39,473)
Unrestricted		93,326	93,326
TOTAL NET POSITION		\$ 53,853	\$ 53,853

DRIFTWOOD CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2023

	General Fund	Adjustments Note 2	Government - Wide Statement of Activities
<u>REVENUES:</u>			
Property taxes, including penalties	\$ 520,306	\$ (2,998)	\$ 517,308
Interest and other	17,546	-	17,546
TOTAL REVENUES	537,852	(2,998)	534,854
<u>EXPENDITURES / EXPENSES:</u>			
Director fees, including payroll taxes	9,331	-	9,331
Legal fees	178,689	-	178,689
Engineering fees	21,888	-	21,888
Accounting fees	25,500	-	25,500
Audit fees	9,750	-	9,750
Financial advisor fees	300	-	300
Other consulting fees	108,073	-	108,073
Tax appraisal/collection fees	2,936	-	2,936
Insurance	4,124	-	4,124
Other	2,584	-	2,584
Capital outlay	488,363	(488,363)	-
Depreciation	-	23,684	23,684
TOTAL EXPENDITURES / EXPENSES	851,538	(464,679)	386,859
Excess (Deficit) of revenues over (under) expenditures/expenses	\$ (313,686)	\$ 461,681	\$ 147,995
<u>OTHER FINANCING SOURCES -</u>			
Developer advances	\$ 575,114	\$ (575,114)	\$ -
TOTAL OTHER FINANCING SOURCES	\$ 575,114	\$ (575,114)	\$ -
NET CHANGE IN FUND BALANCE	261,428	(261,428)	-
CHANGE IN NET POSITION		147,995	147,995
<u>FUND BALANCE / NET POSITION:</u>			
Beginning of the year	183,963	(278,105)	(94,142)
End of the year	<u>\$ 445,391</u>	<u>\$ (391,538)</u>	<u>\$ 53,853</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

DRIFTWOOD CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

1. SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity - The District, a corporate and a governmental agency of the State of Texas, created by House Bill No. 4301, 85th Regular Session of the Texas Legislature, operates under and is governed by the provisions of Chapter 7982 of the Special District Local Laws Code, as amended. The District was created under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code for, among other purposes, financing the construction of the water, wastewater and drainage within its boundaries, as contemplated in the Agreement Concerning Creation and Operation of Driftwood Conservation District (the “Consent Agreement”) entered into by the District, the developer and the City of Dripping Springs (the “City”), effective June 15, 2021, and by Resolution adopted on February 21, 2017 by the City. The reporting entity of the District encompasses those activities and functions over which the District’s officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the “Board”), all of which have been elected or deemed elected by District residents or appointed by the Board. The District is not included in any other governmental “reporting entity” as defined by GASB standards since the majority of Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined by GASB standards which are included in the District’s reporting entity.

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

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

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

**DRIFTWOOD CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

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

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

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

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

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

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

- **General Fund -** The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.

DRIFTWOOD CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

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

Basis of Accounting

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

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

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

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

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

The District may report unearned revenues on its balance sheet. Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the liability for unearned revenues is removed from the balance sheet and revenue is recognized.

**DRIFTWOOD CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Budgets and Budgetary Accounting - An unappropriated budget was adopted on September 14, 2022, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the fiscal year. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

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

Cash and Cash Equivalent Investments - Includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of obligations in the State Treasurer’s Investment Pool, are recorded at amortized cost.

Ad Valorem Property Taxes - Property taxes, penalties, and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the District. Allowances for uncollectible property taxes are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Capital Assets - Capital assets, which include land and easements and infrastructure improvements, are reported in the government-wide column in the Statement of Net Position. Public domain capital assets ("infrastructure") including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at their estimated acquisition value at the time received. In accordance with GASB Statement No. 89, interest incurred during construction of capital facilities is not capitalized.

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

<u>Asset</u>	<u>Years</u>
Water/wastewater/drainage	50
Roads and road improvements	25-50

**DRIFTWOOD CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

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

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

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

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

**DRIFTWOOD CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023**

2. RECONCILIATION OF THE GOVERNMENTAL FUND

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

Fund Balance - General Fund		\$	445,391
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds -			
Capital assets	1,265,463		
Less: Accumulated depreciation	<u>(39,473)</u>		1,225,990
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund -			
Due to developer			<u>(1,617,528)</u>
Net Position - Governmental Activities		\$	<u><u>53,853</u></u>

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

Net Change in Fund Balance - General Fund		\$	261,428
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental fund reports:			
Capital outlay in year paid			488,363
Tax revenue when collected			(2,998)
Developer advances in year received			(575,114)
Governmental fund does not report -			
Depreciation			<u>(23,684)</u>
Change in Net Position - Governmental Activities		\$	<u><u>147,995</u></u>

**DRIFTWOOD CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023**

3. CASH AND CASH EQUIVALENT INVESTMENTS

The investment policies of the District are governed by Section 2256 of the Texas Government Code (the “Public Funds Investment Act”) and an adopted District investment policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District’s investment policy, which complies with the Public Funds Investment Act, include: depositories must be Federal Deposit Insurance Corporation (“FDIC”) insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; and securities collateralizing time deposits are held by independent third party trustees.

Cash - At September 30, 2023, the carrying amount of the District's cash was \$77,571 and the bank balance was \$91,457. The bank balance was covered by federal depository insurance.

Cash Equivalents and Investments -

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

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

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

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

DRIFTWOOD CONSERVATION DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

3. CASH AND CASH EQUIVALENT INVESTMENTS (continued) –

Cash Equivalents and Investments (continued) –

At September 30, 2023, the District held the following investments:

Investment	Fair Value at 9/30/2023	Governmental Fund		
		General	Investment Rating	
		Unrestricted	Rating	Rating Agency
TexPool	\$ 412,397	\$ 412,397	AAAm	Standard & Poors
	\$ 412,397	\$ 412,397		

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

Concentration of credit risk. In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2023, the District did not own any investments in individual securities.

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of September 30, 2023, the District's bank deposits were fully covered by FDIC insurance.

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Hays Central Appraisal District establishes appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Hays County Tax Assessor Collector bills and collects the District's property taxes. The District also contracts with Assessments of the Southwest, Inc. to provide tax assessor/collector services related to compliance and disclosure requirements. The Board of Directors set current tax rates on September 14, 2022.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2022 tax roll. The tax rate, based on total taxable assessed valuation of \$51,447,809 was \$1.00 on each \$100 valuation and was allocated solely to the General Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters at an election held on November 6, 2018.

Property taxes were fully collected at September 30, 2023.

DRIFTWOOD CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance 10/1/2022	Additions	Deletions	Balance 9/30/2023
Capital assets not being depreciated -				
Land and Easements	\$ 50,074	\$ 488,363	\$ -	\$ 538,437
Total capital assets not being depreciated	50,074	488,363	-	538,437
Capital assets being depreciated:				
Entryway Improvements	457,166	-	-	457,166
Waterline Improvements	269,860	-	-	269,860
Total capital assets being depreciated	727,026	-	-	727,026
Less accumulated depreciation for:				
Entryway Improvements	(12,191)	(18,287)	-	(30,478)
Waterline Improvements	(3,598)	(5,397)	-	(8,995)
Total accumulated depreciation	(15,789)	(23,684)	-	(39,473)
Total capital assets being depreciated, net of accumulated depreciation	711,237	(23,684)	-	687,553
Total capital assets, net	\$ 761,311	\$ 464,679	\$ -	\$ 1,225,990

6. BONDED DEBT

The District has not issued any debt as of September 30, 2023. Bonds authorized but not issued as of September 30, 2023, are as follows:

Type	Amount
Unlimited Tax Bonds	\$ 213,039,000
Road Bonds	\$ 48,863,000
Refunding Bonds	\$ 244,995,000
Refunding Road Bonds	\$ 56,192,000

**DRIFTWOOD CONSERVATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023**

7. COMMITMENTS AND CONTINGENCIES

The Developer of the land within the District have incurred costs for the construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the Developer by the District from proceeds of future bond issues or from District operations, subject to approval by the Texas Commission on Environmental Quality. On November 6, 2018, a bond election held within the District approved authorization to issue \$213,039,000 of bonds to fund costs of proposed water, wastewater and drainage system facilities, and the costs of creation. Additionally, \$48,863,000 of bonds to fund road improvements were approved as well as \$244,995,000 of bonds to refund outstanding unlimited tax bonds and \$56,192,000 to refund outstanding road bonds were approved by voters of the District. As of September 30, 2023, the District has not issued any bonds to repay the Developer. The District owes the Developer \$352,065 for advances used to fund operating expenditures and \$1,265,463 related to facilities as of September 30, 2023.

8. RISK MANAGEMENT

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

9. RETAIL WATER AND WASTEWATER SERVICE

Pursuant to the Retail Water and Wastewater Services Agreement (the “Agreement”) entered into by the District, the Developer and the City of Dripping Springs (the “City”), effective January 8, 2019, the District and the Developer will design, finance, and construct all water and wastewater facilities required to serve the District in accordance with applicable City requirements and design standards. Upon completion of the construction of water and wastewater facilities constructed by or on behalf of the District, and following the City’s acceptance of such facilities, the facilities will be conveyed to the City. In exchange for the conveyance of the water and wastewater facilities to serve the District, the City agrees to operate and maintain all water and wastewater facilities conveyed and to provide retail water and wastewater services to customers within the District at the City’s standard water and wastewater rates. The term of the Agreement is forty-five years from the effective date.

10. CONSENT AGREEMENT

Pursuant to the Agreement Concerning Creation and Operation of Driftwood Conservation District (the “Consent Agreement”) entered into by the District, the developer and the City of Dripping Springs (the “City”), effective June 15, 2021, and by Resolution adopted on February 21, 2017 by the City, the City consented to the creation of the District, the developer and City entered into a separate Development Agreement regarding proposed development and the City and developer entered into a Water and Wastewater Agreement for provisions of water and wastewater service (see Note 9). The Consent Agreement will continue in effect until the District is annexed and dissolved by the City.

REQUIRED SUPPLEMENTARY INFORMATION

DRIFTWOOD CONSERVATION DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2023

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance Positive (Negative)</u>
REVENUES:			
Property taxes, including penalties	\$ 520,306	\$ 485,302	\$ 35,004
Other	17,546	-	17,546
TOTAL REVENUES	<u>537,852</u>	<u>485,302</u>	<u>52,550</u>
EXPENDITURES:			
Operations/management fees	-	12,000	12,000
Director fees, including payroll taxes	9,331	9,780	449
Legal fees	178,689	105,000	(73,689)
Engineering fees	21,888	30,000	8,112
Accounting fees	25,500	16,800	(8,700)
Audit fees	9,750	-	(9,750)
Financial advisor fees	300	2,000	1,700
Other consulting fees	108,073	150,000	41,927
Tax appraisal/collection fees	2,936	2,400	(536)
Insurance	4,124	5,000	876
Other	2,584	4,700	2,116
Capital outlay	488,363	200,000	(288,363)
TOTAL EXPENDITURES	<u>851,538</u>	<u>537,680</u>	<u>(313,858)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (313,686)</u>	<u>\$ (52,378)</u>	<u>\$ (261,308)</u>
OTHER FINANCING SOURCES -			
Developer advances	<u>\$ 575,114</u>	<u>\$ 350,000</u>	<u>\$ 225,114</u>
TOTAL OTHER FINANCING SOURCES	<u>\$ 575,114</u>	<u>\$ 350,000</u>	<u>\$ 225,114</u>
NET CHANGE IN FUND BALANCE	261,428	<u><u>\$ 297,622</u></u>	<u><u>\$ (36,194)</u></u>
FUND BALANCE:			
Beginning of the year	<u>183,963</u>		
End of the year	<u><u>\$ 445,391</u></u>		

TEXAS SUPPLEMENTARY INFORMATION

DRIFTWOOD CONSERVATION DISTRICT
TSI-1. SERVICES AND RATES
SEPTEMBER 30, 2023

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

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

2. Retail Service Providers

a. Retail Rates Based on 5/8" Meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	(1)	(1)	(1)	(1)	(1)
WASTEWATER:	(1)	(1)	(1)	(1)	(1)
SURCHARGE:	(1)	(1)	(1)	(1)	(1)

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

Total charges per 10,000 gallons usage: Water (1) Wastewater (1)

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered			1.0	
< 3/4"			1.0	
1"			2.5	
1 1/2"			5.0	
2"			8.0	
3"			15.0	
4"			25.0	
6"			50.0	
8"			80.0	
10"			115.0	
Total Water	(1)	(1)		(1)
Total Wastewater	(1)	(1)	1.0	(1)

⁽¹⁾ Water and wastewater service to be provided to District customers by City of Dripping Springs, Texas.

DRIFTWOOD CONSERVATION DISTRICT
TSI-1. SERVICES AND RATES (continued)
SEPTEMBER 30, 2023

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

Gallons pumped into system: _____ (1)

Gallons billed to customers: _____ (1)

Water Accountability Ratio

(Gallons billed / Gallons Pumped)

N/A

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

Does the District assess 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

County(ies) in which district is located: _____ Hays County, Texas

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

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

City(ies) in which district is located: _____

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which district is located: _____ City of Dripping Springs, Texas

Are Board members appointed by an office outside the district?

Yes ☐ No ☒

If Yes, by whom? _____

(1) Water and wastewater service to be provided to District customers by City of Dripping Springs, Texas.

DRIFTWOOD CONSERVATION DISTRICT
TSI-2. GENERAL FUND EXPENDITURES
SEPTEMBER 30, 2023

Personnel Expenditures (including benefits)	\$ -
Professional Fees:	
Auditing	9,750
Legal	178,689
Engineering	21,888
Financial Advisor	300
Purchased Services For Resale -	
Bulk Water and Wastewater Purchases	-
Contracted Services:	
Bookkeeping	25,500
General Manager	-
Appraisal District/Tax Collector	2,936
Other Contracted Services	108,073
Utilities	-
Repairs and Maintenance	-
Chemicals	-
Administrative Expenditures:	
Directors' Fees	9,331
Office Supplies	-
Insurance	4,124
Election Costs	-
Other Administrative Expenditures	2,584
Capital Outlay:	
Capitalized Assets	488,363
Expenditures not Capitalized	-
Bad Debt	-
Parks and Recreation	-
Other Expenditures	-
TOTAL EXPENDITURES	\$ 851,538

Number of persons employed by the District:

☐ Full-Time

☐ Part-Time

DRIFTWOOD CONSERVATION DISTRICT
TSI-3. TEMPORARY INVESTMENTS
SEPTEMBER 30, 2023

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
General Fund:					
TexPool	XXX0001	Varies	Daily	\$ 397,045	\$ -
TexPool	XXX0002	Varies	Daily	15,352	-
Total				<u>\$ 412,397</u>	<u>\$ -</u>

**DRIFTWOOD CONSERVATION DISTRICT
TSI-4. TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2023**

	Maintenance Taxes	Debt Service Taxes	
Taxes Receivable, Beginning of Year	\$ 2,998	\$ -	
2022 Original Tax Levy, including adjustments	514,478	-	
Total to be accounted for	517,476	-	
Tax collections:			
Current year	514,478	-	
Prior years	2,998	-	
Total collections	517,476	-	
Taxes Receivable, End of Year	\$ -	\$ -	
Taxes Receivable, By Tax Years			
2021	\$ -	\$ -	
2022	-	-	
Taxes Receivable, End of Year	\$ -	\$ -	
Property Valuations:	2022	2021	2020
Land and improvements	\$ 51,447,809 (a)	\$ 27,159,659 (a)	\$ 15,187,706 (a)
Total Property Valuations	\$ 51,447,809	\$ 27,159,659	\$ 15,187,706
Tax Rates per \$100 Valuation:			
Debt Service tax rates	\$ -	\$ -	\$ -
Maintenance tax rates	1.00	1.00	1.00
Total Tax Rates per \$100 Valuation:	\$ 1.00	\$ 1.00	\$ 1.00
Original Tax Levy	\$ 514,478	\$ 271,597	\$ 151,877
Percent of Taxes Collected to Taxes Levied **	100.0%	100.0%	100.0%
Maximum Maintenance Tax Approved by Voters:	\$ 1.00 on	11/6/2018.	

**Calculated as taxes collected in current and previous years divided by tax levy.

(a) Valuations are provided by the appropriate Appraisal District. Due to various factors including tax protests and disputes, such valuations change over time; therefore, they may vary slightly from those disclosed to the District's bond offering documents or the District's annual bond disclosure filings, if any.

**DRIFTWOOD CONSERVATION DISTRICT
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2023**

The District had no long-term debt outstanding at September 30, 2023.

DRIFTWOOD CONSERVATION DISTRICT
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2023

	<u>Total</u>
Interest Rate	
Dates Interest Payable	
Maturity Dates	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ -
Bonds Sold During the Current Fiscal Year	-
Retirements During the Current Fiscal Year:	
Principal	-
Refunded	-
Bonds Outstanding at End of Current Fiscal Year	<u><u>\$ -</u></u>
Interest Paid During the Current Fiscal Year	<u><u>\$ -</u></u>

Paying Agent's Name & Address:

Bond Authority:	Unlimited Tax Bonds*	Road Bonds*	Refunding Bonds*	Refunding Road Bonds*
Amount Authorized by Voters	\$ 213,039,000	\$ 48,863,000	\$ 244,995,000	\$ 56,192,000
Amount Issued	-	-	-	-
Remaining To Be Issued	<u><u>\$ 213,039,000</u></u>	<u><u>\$ 48,863,000</u></u>	<u><u>\$ 244,995,000</u></u>	<u><u>\$ 56,192,000</u></u>

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

Debt Service Fund Cash and Temporary Investments balances as of September 30, 2023:	<u><u>\$ -</u></u>
Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt:	<u><u>\$ -</u></u>

DRIFTWOOD CONSERVATION DISTRICT
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS
SEPTEMBER 30, 2023

	Amounts					Percent of Fund Total Revenues				
	2023	2022	2021 *	2020 *	2019 *	2023	2022	2021 *	2020 *	2019 *
GENERAL FUND REVENUES:										
Property taxes, including penalties	\$ 520,306	\$ 272,746	\$ 152,891	\$ 66,074	\$ -	46.7%	53.1%	72.8%	93.0%	-
Interest and other	17,546	1,032	-	-	-	1.6%	0.2%	-	-	-
Developer advances	575,114	240,192	57,196	5,000	13,000	51.7%	46.7%	27.2%	7.0%	100.0%
TOTAL GENERAL FUND REVENUES	1,112,966	513,970	210,087	71,074	13,000	100.0%	100.0%	100.0%	100.0%	100.0%
GENERAL FUND EXPENDITURES:										
Repairs/maintenance	-	367	-	-	-	-	0.1%	-	-	-
Director fees, including payroll taxes	9,331	8,712	8,889	6,620	6,943	0.8%	1.7%	4.2%	9.4%	53.4%
Legal fees	178,689	83,175	95,343	4,400	-	16.1%	16.2%	45.4%	6.2%	-
Engineering fees	21,888	18,199	19,433	5,000	-	2.0%	3.5%	9.2%	7.0%	-
Accounting fees	25,500	14,400	14,400	11,050	-	2.3%	2.8%	6.9%	15.5%	-
Audit fees	9,750	-	-	-	-	0.9%	-	-	-	-
Financial advisor fees	300	1,100	200	-	-	-	0.2%	0.1%	-	-
Other consulting fees	108,073	193,114	56,868	-	-	9.7%	37.6%	27.1%	-	-
Tax appraisal/collection fees	2,936	1,833	1,034	933	-	0.3%	0.4%	0.5%	1.3%	-
Insurance	4,124	4,119	4,269	3,892	4,767	0.4%	0.8%	2.0%	5.5%	36.7%
Other	2,584	2,565	292	1,412	765	0.2%	0.5%	0.1%	2.0%	5.9%
Capital outlay	488,363	50,074	-	-	-	43.8%	9.7%	-	-	-
TOTAL GENERAL FUND EXPENDITURES	851,538	377,658	200,728	33,307	12,475	76.5%	73.5%	95.5%	46.9%	96.0%
EXCESS OF GENERAL FUND REVENUES OVER EXPENDITURES	\$ 261,428	\$ 136,312	\$ 9,359	\$ 37,767	\$ 525	23.5%	26.5%	4.5%	53.1%	4.0%
TOTAL ACTIVE RETAIL WATER AND WASTEWATER CONNECTIONS	(1)	(1)	(1)	(1)	(1)					

* Unaudited

⁽¹⁾ Water and wastewater service to be provided to District customers by City of Dripping Springs, Texas.

DRIFTWOOD CONSERVATION DISTRICT
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2023

Complete District Mailing Address:	<u>401 Congress Ave., Suite 2100</u> <u>Austin, TX 78701</u>
District Business Telephone Number:	<u>(512) 370-2923</u>
Submission Date of the most recent District Registration Form TWC Sections 36.054 & 49.054):	<u>November 11, 2022</u>
Limits on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution TWC Section 49.060)	<u>\$7,200*</u>

Name and Address:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid * 9/30/2023	Expense Reimbursements 9/30/2023	Title at Year End
<i>Board Members:</i>				
STEPHEN C. DICKMAN	(Elected) 5/2/2020 - 5/4/2024	\$ 1,792	\$ 143	President
SAM SIDDONS	(Elected) 5/2/2020 - 5/4/2024	\$ 1,792	\$ 157	Vice President
DANETTE R. KOEBELE	(Elected) 5/7/2022 - 5/2/2026	\$ 1,721	\$ -	Secretary
JETT GARNER	(Elected) 5/7/2022 - 5/2/2026	\$ 1,271	\$ 36	Treasurer
ROYCE WACHSMANN	(Elected) 5/7/2022 - 5/2/2026	\$ 2,092	\$ -	Assistant Secretary
<i>Consultants:</i>				
Andy Barrett & Associates PLLC	8/20/2018	\$ 79,900	\$ -	Attorney
Murfee Engineering	8/20/2018	\$ 24,893	\$ -	Engineer
		\$ 33,568	\$ -	Bond Related Services
Bott & Douthitt, PLLC	4/16/2020	\$ 24,725	\$ 405	Accountant
McCall Gibson Swedlund Barfoot PLLC	9/14/2022	\$ 9,750	\$ -	Auditor
GMS Group	8/21/2019	\$ 300	\$ -	Financial Advisor
Winstead PC	8/20/2018	\$ 44,380	\$ -	Bond Counsel
Hays County Tax Collector	4/17/2019	\$ -	\$ -	Tax Collector

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

OTHER SUPPLEMENTARY INFORMATION

DRIFTWOOD CONSERVATION DISTRICT
OSI-1. PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2023

Taxpayer	Type of Property	Tax Roll Year		
		2023	2022	2021
Driftwood Golf Club LP	N/A	\$ 26,766,020	\$ 13,187,840	\$ 3,455,850
Driftwood Golf Club Development Inc.	N/A	15,940,080	5,342,870	2,560,790
Driftwood Golf Club Development Inc.	N/A	8,263,930	3,076,250	1,009,210
Driftwood Spec Investors LLC	N/A	6,108,460	1,834,200	1,529,760
Driftwood Golf Club Development Inc.	N/A	3,542,750	1,370,040	681,780
Driftwood Three Vines LLC	N/A	3,464,530	-	-
SPV Driftwood Golf Lot 3 LLC	N/A	3,252,700	-	-
JPD Driftwood Holdings LLC	N/A	3,090,560	-	-
Reid 2021 Irrevocable Trust	N/A	2,436,740	-	-
Driftwood DLC Investor II LP	N/A	2,391,690	1,304,420	1,636,380
PNC Equipment Finance LLC	N/A	-	1,026,057	-
Driftwood Golf Club Development Inc.	N/A	-	698,450	390,660
Huntington National Bank	N/A	-	619,025	-
Just Drift LLC	N/A	-	611,400	-
Homeowner	N/A	-	-	688,000
Kuota LLC	N/A	-	-	488,760
CNWC-1 LLC	N/A	-	-	344,000
Total		\$ 75,257,460	\$ 29,070,552	\$ 12,785,190
Percent of Assessed Valuation		57.8%	56.5%	47.1%

DRIFTWOOD CONSERVATION DISTRICT
OSI-2. ASSESSED VALUE BY CLASSIFICATION
SEPTEMBER 30, 2023

Type of Property	Tax Roll Year					
	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Residential Single Family	\$ 26,594,920	20.4%	\$ -	-	\$ -	-
Vacant Platted Lots	97,628,620	74.9%	39,294,760	76.4%	14,662,540	54.0%
Real Acreage	1,901,610	1.5%	1,713,420	3.3%	856,710	3.2%
Farm and Ranch Improvement	3,930,910	3.0%	10,475,420	20.4%	12,326,880	45.4%
Tangible Personal, Business	2,116,089	1.6%	1,674,269	3.3%	166,929	0.6%
Exemptions/Adjustments	(1,898,140)	-1.4%	(1,710,060)	-3.4%	(853,400)	-3.2%
Total	<u>\$ 130,274,009</u>	<u>100.0%</u>	<u>\$ 51,447,809</u>	<u>100.0%</u>	<u>\$ 27,159,659</u>	<u>100.0%</u>

APPENDIX B

PHOTOGRAPHS TAKEN IN THE DISTRICT









APPENDIX C

FINANCIAL INFORMATION CONCERNING THE DEVELOPER

Driftwood Golf Club Development, Inc. (the "Developer") has prepared and delivered the unaudited financial information included in this APPENDIX C (the "Financial Information") to the District for publication in connection with the District's offer and sale of the Bonds. The Financial Information has been included herein solely as additional information concerning the financial condition and capability of the Developer. Such Financial Information is relevant, among other reasons, to the Developer's ability to continue developing its land within the District and to pay ad valorem taxes thereon, and to preserve its financial investment in the District.

The Developer has represented to the District that the Financial Information relating to it has been prepared from its books and records, and fairly presents the Developer's financial condition. The Developer has also represented to the District that the Financial Information does not fail to disclose any material fact or omit to state any material adverse change in the financial condition of the Developer since the date on which the Financial Information is presented. The Developer has agreed to inform the District prior to delivery of the Bonds of any material adverse change in its financial condition since the dates of the Financial Information provided by the Developer contained herein.

The Developer is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District and the inclusion of the Financial Information herein should not be construed as an implication to that effect. The Developer has not made any legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of property within the District, or any other assets, at any time. Therefore, the District cautions that the Financial Information should not be construed or interpreted in any way as an indication of the investment security of the Bonds.

Driftwood DLC Austin Investments, LP and Subsidiaries, and Driftwood Golf Club Development, Inc.

Consolidated and Combined Financial Report
December 31, 2022

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Independent Auditor's Report

Executive Committee
Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.

Report on the Audit of the Financial Statements**Opinion**

We have audited the consolidated and combined financial statements of Driftwood DLC Austin Investments, LP and Subsidiaries, and Driftwood Golf Club Development, Inc. (the Company), which comprise the consolidated and combined balance sheets as of December 31, 2022 and 2021, the related consolidated and combined statements of income, equity and cash flows for the years then ended, and the related notes to the consolidated and combined financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2022, the Company adopted new accounting guidance for its leases under Financial Accounting Standards Board's Accounting Standards Codification Topic 842, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Phoenix, Arizona
June 6, 2023

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

**Consolidated and Combined Balance Sheets
December 31, 2022 and 2021**

	2022	2021
Assets		
Real estate under development	\$ 94,471,808	\$ 96,474,008
Cash and cash equivalents	15,028,851	26,102,340
Deferred cost of sales	83,581,037	61,894,213
Property and equipment, net	19,803,166	4,782,968
Right-of-use assets for operating leases, net	1,547,896	-
Accounts receivable	8,662,357	1,082,251
Note receivable	-	776,781
Prepaid expenses and other assets	744,518	1,056,859
Inventory	335,062	149,876
	<u>\$ 224,174,695</u>	<u>\$ 192,319,296</u>
Liabilities and Equity		
Accounts payable and accrued expenses	\$ 19,034,673	\$ 4,723,963
Deferred income	155,496,310	140,283,023
Real estate deposits	2,569,485	1,140,000
Vertical loss liability	1,135,493	-
Club membership deposits	13,600,000	10,800,000
Lease liability for operating leases	1,480,107	-
Lease liability for financing leases	728,717	534,632
	<u>194,044,785</u>	<u>157,481,618</u>
Commitments and contingencies (Note 9)		
Equity:		
Members' equity	10,136,640	34,613,297
Noncontrolling interest	19,993,270	224,381
Total equity	<u>30,129,910</u>	<u>34,837,678</u>
	<u>\$ 224,174,695</u>	<u>\$ 192,319,296</u>

See notes to consolidated and combined financial statements.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

**Consolidated and Combined Statements of Income
Years Ended December 31, 2022 and 2021**

	2022	2021
Revenue:		
Lot sales	\$ 82,343,248	\$ 94,020,050
Vertical product	15,818,007	1,368,991
Club operations	6,686,899	2,384,130
	<u>104,848,154</u>	<u>97,773,171</u>
Cost of revenue:		
Cost of lots sold	44,447,338	24,692,494
Cost of vertical product sold	16,625,258	1,364,491
Cost of club operations	3,129,191	1,729,398
Commissions, closing costs and fees	16,629,265	16,625,857
	<u>80,831,052</u>	<u>44,412,240</u>
Other expenses (income):		
Sales and marketing	4,546,257	3,324,569
Other income	(114,766)	(230,628)
General and administrative expense	15,984,794	3,746,309
Depreciation expense	1,402,638	513,704
	<u>21,818,923</u>	<u>7,353,954</u>
Net income	2,198,179	46,006,977
Net income attributable to noncontrolling interest	<u>22,528,889</u>	<u>17,962,223</u>
Net (loss) income attributable to Driftwood DLC Austin Investments, LP and Subsidiaries, and Driftwood Golf Club Development, Inc.	<u>\$ (20,330,710)</u>	<u>\$ 28,044,754</u>

See notes to consolidated and combined financial statements.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

**Consolidated and Combined Statements of Equity
Years Ended December 31, 2022 and 2021**

	Driftwood DLC Austin Investments, LP and Subsidiaries, and Driftwood Golf Club Development, Inc.	Noncontrolling Interest	Total
Balance at December 31, 2020	\$ 37,293,543	\$ 4,462,158	\$ 41,755,701
Contributions	2,225,000	-	2,225,000
Distributions	(32,950,000)	(22,200,000)	(55,150,000)
Net income	28,044,754	17,962,223	46,006,977
Balance at December 31, 2021	34,613,297	224,381	34,837,678
Contributions	1,000	-	1,000
Distributions	(4,146,947)	(2,760,000)	(6,906,947)
Net (loss) income	(20,330,710)	22,528,889	2,198,179
Balance at December 31, 2022	\$ 10,136,640	\$ 19,993,270	\$ 30,129,910

See notes to consolidated and combined financial statements.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

**Consolidated and Combined Statements of Cash Flows
Years Ended December 31, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
Net income	\$ 2,198,179	\$ 46,006,977
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	1,402,638	513,704
Changes in operating assets and liabilities:		
Additions to real estate under development	(98,444,805)	(78,922,615)
Cost of lot sales	98,475,622	50,492,497
Deferred costs of sales	(21,686,824)	(38,127,656)
Accounts receivable	(7,580,106)	(1,082,251)
Prepaid expenses and other assets	312,341	(926,518)
Inventory	(185,186)	(149,876)
Accounts payable and accrued liabilities	673,332	(6,025,279)
Deferred income	15,213,287	86,710,373
Real estate deposits	1,429,485	(860,000)
Vertical loss liability	1,135,493	-
Club membership deposits	2,800,000	7,100,000
Right-of-use asset and lease liability for operating leases	(67,789)	-
Net cash (used in) provided by operating activities	(4,324,333)	64,729,356
Cash flows from investing activities:		
Purchases of property and equipment	(349,499)	(1,281,690)
Net cash used in investing activities	(349,499)	(1,281,690)
Cash flows from financing activities:		
Payments on related-party notes payable	-	(22,358,994)
Payments on finance lease obligations	(270,491)	(937,456)
Principal payments on note payable	-	(5,092,382)
Proceeds on note receivable	776,781	-
Advances on note receivable	-	(1,781)
Member contributions	1,000	2,225,000
Member distributions	(6,906,947)	(55,150,000)
Net cash used in provided by financing activities	(6,399,657)	(81,315,613)
Net decrease in cash and cash equivalents	(11,073,489)	(17,867,947)
Cash and cash equivalents:		
Beginning of year	26,102,340	43,970,287
End of year	\$ 15,028,851	\$ 26,102,340
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ -	\$ 1,078,077
Development costs included in accounts payable and accrued liabilities	\$ 13,637,378	\$ 1,572,823
Noncash operating, investing and financing activities:		
Property and equipment acquired through finance lease	\$ 464,576	\$ 182,145
Right-of-use assets obtained through incurring operating lease liabilities	\$ 2,419,643	\$ -
Property and equipment transferred from real estate under development	\$ 15,608,761	\$ 2,414,657

See notes to consolidated and combined financial statements.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 1. Nature of Operations

Driftwood DLC Austin Investments, LP (DLC Austin) is a Delaware limited partnership formed on August 28, 2018, for the purpose of, directly or indirectly through one or more subsidiaries, acquiring and developing a high-end residential project located in Hays County, Texas. The General Partner of DLC Austin is Driftwood DLC Austin GP, LLC, who holds a 0.1% ownership interest. The remaining ownership interest of the DLC Austin is split between various investors.

Driftwood Golf Club Development, Inc. (the Corporation) is a Delaware corporation formed on April 12, 2018, for the purpose of raising capital from various sources to directly or indirectly fund the purchase of real property and/or construction, development, overhead and other costs related to the development of improvements on such acquired real property. A governing board comprised of shareholders and independent members determines the actions of the Corporation. The Corporation is responsible for all development activity associated with Driftwood Land Partners, LP (the Partnership). Effective August 20, 2020, Driftwood Golf Club Development, Inc. amended its articles of incorporation and bylaws to authorize two classes of common stock, designated as Class A common stock and Class B common stock. The total number of shares of common stock that the Corporation is authorized to issue is 62,500, consisting of 31,250 shares of Class A common stock and 31,250 shares of Class B common stock, each having a par value of \$0.01 per share. Class A common stock and Class B common stock have identical rights, except that holders of Class A common stock have voting rights and holders of Class B common stock do not have voting rights. All existing shareholders became Class B shareholders.

JPD Driftwood Holdings, LLC contributed \$25,000 cash for Class A common stock and executed a promissory note for an additional contribution of \$2,225,000, which was made in July 2021. For the year ended December 31, 2020, the promissory note receivable was netted with the capital contribution to reflect the \$25,000 cash received from the Class A shareholder. The Corporation granted to the Class A shareholder the option to purchase two lots out of the Driftwood Golf & Ranch Club, phase one final plat for \$750,000 each, with both options expiring July 1, 2021. The expiration date was extended and these options were exercised July 19, 2021.

DLC Austin has six wholly owned subsidiaries (collectively, the Subsidiaries): Driftwood DLC Austin I, LLC (dba Driftwood Austin, LLC), formed November 1, 2017, and Driftwood DLC Investor I, LP, formed August 28, 2018 (collectively, the Roberts entities); Driftwood DLC Austin II, LLC, formed February 16, 2018, and Driftwood DLC Investor II, LP, formed August 28, 2018 (collectively, the Brown entities); and Driftwood DLC GC GP, LLC, formed August 13, 2018, and Driftwood Golf Club, LP, formed August 28, 2018 (collectively, the Club entities). On October 10, 2018, the sole member of Driftwood DLC Austin I, LLC contributed its ownership interest in that entity to Driftwood DLC Austin Investments, LP in return for an ownership interest in that entity. The Club entities have had no activity since formation.

The Roberts entities were formed to acquire certain lots and tracts of land located in Hays County, Texas (the Roberts Land), pursuant to the Purchase and Sales Contract dated November 9, 2017. The Brown entities were formed to acquire certain lots and tracts of land located in Hays County, Texas (the Brown Land), pursuant to the Purchase and Sales Contract dated July 3, 2018. Collectively, the Roberts Land and Brown Land shall be referred to herein as the Property.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 1. Nature of Operations (Continued)

The Partnership is a Delaware limited partnership formed on August 7, 2020 by the Driftwood DLC Austin GP, LLC (General Partner), JPD Driftwood Holdings, LLC (JPD), and DLC Austin. Shortly after the Partnership's formation, JPD contributed cash of \$100,000 with \$11,150,000 being agreed to be contributed at a later date on or before July 1, 2021 as required by the Business Plan and certification by the General Partner that such funds are required by the Partnership. The additional contribution was not made by July 1, 2021 as it was deemed not required by the General Partner given the Partnership's capital position and is no longer expected to be contributed to the Partnership. DLC Austin contributed 100% of its ownership interest in the Subsidiaries and transferred its right, title, and interest to all real, personal, tangible, or intangible property, along with those associated liabilities to the Partnership. The Partnership continues to carry out the original purpose of DLC Austin. Collectively, DLC Austin, the Partnership, the Corporation and Subsidiaries shall be referred to herein as the Company.

Note 2. Summary of Significant Accounting Policies

Generally accepted accounting principles: The consolidated and combined financial statements (collectively, the financial statements) of the Company were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) established primarily by the Financial Accounting Standards Board (FASB).

Principles of consolidation and combination: The accompanying financial statements include the accounts of Driftwood DLC Austin Investments, LP and its wholly owned subsidiaries for 2022 and 2021, and Driftwood Land Partners, LP and its wholly owned subsidiaries for 2022 and 2021, along with Driftwood Golf Club Development, Inc. for 2022 and 2021. All material intercompany transactions and balances have been eliminated upon consolidation and combination.

Assumptions, judgments and estimates: The preparation of the 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 period. Actual results could differ from those estimates.

The significant areas requiring the use of assumptions, judgments and estimates include the Company's use of the cost-input method where total cost incurred to date in comparison to the total estimated cost to complete for revenue recognition is significantly dependent on management's ability to make accurate estimates of the total project costs and future revenues, and the estimated useful lives of property and equipment.

Variable interest entity: The Company has entered into a Development Marketing and Sales Agreement with Discovery Driftwood Management, LLC (the Management Company), a Company related through common ownership (see Note 8). This represents a variable interest the Company has in the Management Company. The Company has determined that the Management Company is a variable interest entity (VIE). However, it has also concluded that the Company is not the primary beneficiary of the VIE as the Company does not hold the power to direct the activities the Management Company that most significantly impact the Management Company's economic performance. As a result, the Management Company is not consolidated within the accompanying financial statements. The Company is not at risk to loss as payment for services is not made until after the service has been rendered.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The Company has entered into a Service Agreement with Discovery Builders Texas, LLC (the Builders Company), a Company related through common ownership (see Note 8). This represents a variable interest in the Builders Company. The Company has determined that the Builders Company is a variable interest entity (VIE). However, it has also concluded that the Company is not the primary beneficiary of the VIE as the Company does not hold the power to direct the activities of the Builders Company that most significantly impact the Builders Company's economic performance. As a result, the Builders Company is not consolidated within the Company's consolidated financial statements. The Company is not at risk to loss as payment for services is not made until after the service has been rendered.

Real estate under development: Costs incurred in the construction of development projects are capitalized and included in the cost of land, acquisition costs, pre-acquisition costs, entitlement costs, direct construction costs, property taxes, interest, insurance and certain general and administrative expenses to the extent the expenses are direct and incremental to qualifying projects. Capitalization of these costs occurs until construction is substantially complete and the asset is ready for its intended use. Costs incurred for such items after a project is substantially complete are charged to expense.

Development costs related to long-term real estate development projects are allocated to cost of sales using the relative sales value method. The real estate development pro forma is regularly reviewed and updated to reflect any existing market and business changes. These updates result in changes in accounting estimates, which are considered to be in the normal course of such business activities, and the effects of these changes are recorded prospectively in current and future allocations. Cash payments to purchase or improve real estate to be constructed, subdivided or improved for resale are classified as cash flows from operating activities on the accompanying consolidated and combined statements of cash flows.

Capitalized interest and property taxes: Interest and property tax expenses allocable to the cost of active development projects are capitalized as part of the asset until development is substantially complete. Costs incurred for such items after the development is substantially complete are charged to expense. Interest incurred for the years ended December 31, 2022 and 2021, was \$0 and \$865,411, respectively, and was capitalized to real estate under development on the accompanying consolidated and combined balance sheets.

Cash and cash equivalents: The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses on such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Deferred cost of sales: Deferred costs include costs of lots sold, plus closing and transfer fees and commissions paid on real estate sales. Deferred cost is recognized on a cost input basis as development progresses.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Impairment of long-lived assets: Long-lived assets are evaluated for potential impairment whenever events or changes in circumstances indicate that carrying value of assets may not be recoverable. If the asset's carrying value exceeds the estimated undiscounted future cash flows expected to be generated by that asset, an impairment loss is recognized to the extent the asset's carrying value exceeds fair value. Management has estimated the projected future undiscounted net cash flows of the project based on present development plans and intentions. The estimates assume that all necessary entitlements are in place, development is complete and disposition occurs in the normal course of business. Future economic, financial, market and political conditions may continue to affect management's development and marketing plans. No impairment losses have been recorded by the Company during the years ended December 31, 2022 or 2021.

Property and equipment, net: Property and equipment, net, are recorded at cost, less accumulated depreciation. Depreciation is provided for primarily on the straight-line method over the estimated service lives of the assets. Expenditures for major renewals and betterments that extend the useful lives of equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Estimated service lives for property and equipment are as follows:

Asset	Years
Buildings and improvements	3-40
Furniture, fixtures, equipment and vehicles	3-7
Golf course equipment	4-7
Golf course	15

Accounts receivable: The Company grants credit to customers that arise in the normal course of operations. The receivables consist of amounts billed to customers and accruals for amounts not yet billed and primarily relate to membership dues and charges made on the member's account for merchandise and services provided.

Note receivable: The Company extended seller financing related to a lot sale during 2020 in the amount of \$775,000. The note is secured by the deed of the property. The note incurs annual interest in the amount of 0.14%, and the full amount of the note was repaid by its maturity date of January 31, 2022.

Prepaid expenses and other assets: Prepayments and other assets consists primarily of prepaid fees, supplies and various vendor deposits to be applied to a future purchase.

Inventory: Inventory comprises of food and beverage and golf retail. This includes food, beverages, hard goods, golf balls, soft goods and accessories. These inventories are carried at the lower of cost or net realizable value using the first-in, first-out method. Normal replacement purchases are expensed as incurred.

Accounts payable and accrued expenses: Accounts payable and accrued expenses include construction payables, sales commissions payable and other accruals.

Real estate deposits: The Company records cash received for lot purchases that have not been formally executed as real estate deposits until the lot sale occurs and title of the lot is transferred to the buyer.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Club membership deposits: Members are required to pay a membership deposit for a non-equity club membership. The proceeds are recorded as a deposit upon receipt. Management reserves the right to change the deposit amount for new members at any time based on its discretion. Membership deposits are not transferable, except as specifically provided in the Membership Plan, and are refundable only in accordance with the Membership Plan and Membership Agreement, as defined. There were 130 and 108 paid club memberships as of December 31, 2022 and 2021, respectively. The Company may also grant honorary memberships to investors and others serving the project. Honorary memberships may not be sold or transferred and do not carry an associated liability. Honorary memberships were 18 for each of the years ended December 31, 2022 and 2021. Membership deposits recorded were \$13,600,000 and \$10,800,000 as of December 31, 2022 and 2021, respectively.

Net income attributable to noncontrolling interests: The DLP operating agreement contains a provision requiring that net income or loss be allocated to their respective equity members so that the ending members' equity balances are those that each equity member would receive in a hypothetical liquidation of the Company's net assets at their book value. Since certain noncontrolling interest parties would receive priority distributions and the controlling interest party in DLP would receive subordinate distributions upon a hypothetical liquidation, for the years ended December 31, 2022 and 2021, net income of \$22,528,889 and \$17,962,223 were allocated to noncontrolling interests, respectively.

Revenue and cost recognition: The Company recognized revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Real estate revenue: Revenues from real estate sales are recognized at a point in time when the land sale closing process is complete. The transaction price is fixed based on the terms of the contract, and generally representative of a single performance obligation. The fixed transaction price, which is the amount of consideration received in full upon transfer of the land title to the buyer, is allocated to this single obligation and is received at the closing of the land sale less any amounts previously paid on deposit.

In situations where the Company has completed the closing of a real estate sale and consideration is paid in full, but a portion of the Company's performance obligation relating to the development of the land is still unsatisfied, revenue related to the Company's obligation is recognized over time. The Company recognizes only the portion of the improved land sale where the improvements are fully satisfied based on a cost input method. The aggregate amount of the transaction price allocated to the unsatisfied obligation is recorded as deferred land sales and presented in deferred income. The Company measures the completion of its unsatisfied obligation based on the costs remaining relative to the total cost at the date of closing.

When the real estate under development is sold, the cost of sales includes actual costs incurred and estimates of future development costs benefiting the property sold. In accordance with Accounting Standards Codification (ASC) 970-360-30-1, when developed land is sold, costs are allocated to each lot based upon the relative sales value. For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated throughout the year, with adjustments being allocated prospectively to the remaining lots available for sale.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Vertical product revenue: The Company contracts with customers to construct a vertical improvement (vertical product). The transaction price is fixed based on the terms of the contract. Subsequent changes due to customer submitted change orders represent a contract modification. The Company's performance obligations is to construct the vertical product. Revenue from the sale of a vertical product is recognized over time as the Company satisfies the performance obligations.

The Company receives cash payments in the form of vertical improvement deposits from customers who have contracted to purchase a developer product unit based on billing schedules established in the Company's purchase agreement contracts. The amounts are recorded in cash and cash equivalents and a corresponding liability is established at the date of receipt, which is presented in deferred income. The Company recognizes revenue on vertical products using an input method of cost incurred relative to total cost of the vertical product for measuring progress.

Costs related to vertical construction in excess of vertical sales contracts with customers are recognized in the period incurred as costs of vertical product sold with a corresponding vertical product liability being recorded. The vertical product liability is relieved as construction occurs using the input method of cost incurred relative to total cost of the vertical product.

For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated throughout the year, with adjustments being allocated prospectively to the remaining parcels available for sale. Taxes collected from sales are excluded from revenue and remitted to governmental authorities.

Club operations: Revenue from club operations, including food and beverage, guest fees and merchandise sales are recognized when the goods and services are provided. Revenue from social dues are billed annually with payment due upon invoice receipt, with revenue recognized over time as earned.

Advertising costs: The Company generally expenses advertising costs as incurred. Advertising expense, including digital marketing, was approximately \$4,546,000 and \$3,325,000 for the years ended December 31, 2022 and 2021, respectively, and is included within sales and marketing expense on the accompanying consolidated and combined statements of income.

Income taxes: No provision has been made in the accompanying financial statements for federal income taxes because the Partnership is treated as a partnership and the Corporation is treated as an S corporation for tax purposes. As such, the results of operations are included in the tax returns of the members of the Partnership and shareholders of the Corporation. For state tax purposes, the Company is subject to franchise tax in Texas. As such, provision has been made in the accompanying financial statements for this tax.

The Company is not subject to federal income tax but may be subject to certain state income taxes. The FASB provides guidance for how uncertain income tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of income tax positions taken or expected to be taken in the course of preparing the Company's income tax returns to determine whether the income tax positions are more likely than not of being sustained when challenged or when examined by the applicable tax authority. Income tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense, and asset or liability in the current year. For the years ended December 31, 2022 and 2021, management has determined that there are no material uncertain income tax positions. The Company is subject to income tax examinations by the U.S. federal, state or local tax authorities consistent with the applicable statutes of limitation.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Recently adopted accounting pronouncement: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations related to their leasing arrangements. The comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) leases assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. Lease expense continues to be recognized in a manner similar to legacy U.S. GAAP. The Company adopted the new lease standard on January 1, 2022, using the optional transition method to the modified retrospective approach. Under this transition provision, results for reporting periods beginning on January 1, 2022 are presented under Topic 842, while prior period amounts continue to be reported and disclosed in accordance with the Company's historical accounting treatment under ASC Topic 840, Leases.

To reduce the burden of adoption and ongoing compliance with Topic 82, a number of practical expedients and policy elections are available under the new guidance. The Company elected the package of practical expedients permitted under the transition guidance, which among other things, did not require reassessment of whether contracts entered into prior to adoption are or contain leases, and allowed carryforward of the historical lease classification for existing leases. The Company has not elected to adopt the hindsight practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on January 1, 2022.

The Company made an accounting policy election under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, the Company recognizes ROU assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index). Subsequent changes on an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Company's leases may include a non-lease component representing additional services transferred to the Company, such as common area maintenance for real estate. The Company made an accounting policy election to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. Non-lease components that are variable in nature are recorded in variable lease expense in the period incurred.

A lessee that is not a public business entity (PBE) is permitted to use a risk-free discount rate for its leases, determined using a period comparable with that of the lease term, as an accounting policy election for all leases. In order to ease the accounting burden of determining incremental borrowing rates under ASC 842, the Company has made this accounting policy election for all leases. The risk-free discount rates were obtained using U.S. Treasury securities as posted on the Federal Reserve website. The Company uses the implicit rate when readily determinable.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to the Company's operating leases of approximately \$2,420,000 at adoption date of January 1, 2022. The Company's financing leases were already recorded on the balance sheet as capital leases. The adoption of the new lease standard did not materially impact net income or cash flows and did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Reclassification: Certain amounts in the 2021 financial statements have been reclassified to be consistent with the 2022 presentation. This reclassification had no effect on net income or members' equity reported in the accompanying consolidated and combined financial statements.

Note 3. Real Estate Under Development

Real estate under development consists of the following at December 31:

	2022	2021
Land	\$ 37,769,696	\$ 37,768,315
Development costs	227,653,579	132,056,530
Capitalized interest	2,454,795	2,454,795
Real estate taxes	2,257,830	1,382,838
Less amounts transferred to deferred cost of sales	(157,640,673)	(74,773,813)
Less amounts transferred to property and equipment	(18,023,419)	(2,414,657)
Real estate under development	<u>\$ 94,471,808</u>	<u>\$ 96,474,008</u>

Note 4. Property and Equipment

Property and equipment consist of the following at December 31:

	2022	2021
Land	\$ 10,158,024	\$ -
Buildings and improvements	3,720,832	362,754
Furniture, fixtures, equipment and vehicles	3,322,857	2,473,922
Golf course equipment	203,899	203,899
Golf course	4,443,364	2,414,657
	<u>21,848,976</u>	<u>5,455,232</u>
Accumulated depreciation	(2,045,810)	(672,264)
Property and equipment, net	<u>\$ 19,803,166</u>	<u>\$ 4,782,968</u>

Depreciation expense was \$1,402,638 and \$513,704 for the years ended December 31, 2022 and 2021, respectively.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 5. Deferred Cost of Sales

Deferred cost of sales consists of the following at December 31:

	2022	2021
Transfers from real estate under development	\$ 124,495,762	\$ 73,409,322
Vertical costs	33,144,911	1,364,491
Commissions, closing costs and fees	64,011,646	48,625,314
	<u>221,652,319</u>	<u>123,399,127</u>
Less cost realized:		
Cost of lot sales	(80,482,487)	(36,035,149)
Cost of vertical sales	(16,854,256)	(1,364,491)
Commissions, closing costs and fees	(40,734,539)	(24,105,274)
	<u>\$ 83,581,037</u>	<u>\$ 61,894,213</u>

Note 6. Deferred Income

Deferred income consists of the following at December 31:

	2022	2021
Lot sales—cumulative	\$ 340,896,085	\$ 271,643,700
Vertical unit sales—cumulative	45,017,571	2,296,913
Membership dues	2,677,500	1,276,001
	<u>388,591,156</u>	<u>275,216,614</u>
Less lot sales realized since inception	(215,907,848)	(133,564,600)
Less vertical product sales realized since inception	(17,186,998)	(1,368,991)
	<u>\$ 155,496,310</u>	<u>\$ 140,283,023</u>

Note 7. Lines of Credit

In June 2022, the Company entered into a \$15,000,000 line of credit with Plains Capital Bank for the construction and improvements of several residential lots. The line of credit is secured by these lots and an escrow deposit of \$1,500,000. The line of credit matures on June 10, 2023.

Any interest incurred is due monthly. The Company has not drawn on the line of credit, and as such, the outstanding principal balance totaled \$0 as of December 31, 2022. The Company had no accrued interest outstanding at December 31, 2022.

Note 8. Related-Party Transactions

In October 2018, the Company entered into a Development, Marketing and Sales Agreement (DMSA) with the Management Company. Under the terms of the agreement, the Management Company agrees to provide sales, marketing, administrative and supervision services to the project. The Management Company is entitled to expense reimbursement equal to \$100,000 per month for the first 24 months of the term, as well as a commission fee equal to 4% of qualifying revenues, as defined in the agreement. In addition, the Management Company is entitled to various incentive and milestone fees (see Note 9). For the years ended December 31, 2022 and 2021, the Management Company earned \$0 in management fees for both years, and \$3,730,214 and \$7,049,060 in commission fees, respectively, which are

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 8. Related-Party Transactions (Continued)

capitalized into real estate under development in the accompanying consolidated and combined balance sheets. At December 31, 2022 and 2021, \$27,804 and \$0, respectively, in commission fees are included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets.

In June 2021, the Company entered into a Service Agreement with the Builders Company. Under the terms of the agreement, the Builders Company agrees to provide construction services to the project. Each month, the Builders Company is entitled to expense reimbursement equal to 100% of the costs for the services the Builders Company furnished during the period. In addition, the Builders Company is entitled to residential contract fees and commercial contract fees. Residential contract fees are defined as 5.0% of construction revenue, all direct purchases that are incorporated into the final built product, and direct charges. Commercial contract fees are defined as 1.5% of construction revenue. For the years ended December 31, 2022 and 2021, the Builders Company earned \$616,014 and \$19,124 in fees, respectively, which are capitalized into real estate under development in the accompanying consolidated and combined balance sheets. At December 31, 2022 and 2021, \$70,245 and \$0, respectively, in fees are included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets.

The Company incurred approximately \$163,174 and \$2,509,000 in expense reimbursements to Discovery Land Ventures (Discovery) for the years ended December 31, 2022 and 2021, respectively, all of which is included in real estate under development on the accompanying consolidated and combined balance sheets. The Company incurred approximately \$260,000 and \$0 in expense reimbursements to Discovery Land Consolidated, LLC for the years ended December 31, 2022 and 2021, respectively, all of which is included in real estate under development on the accompanying consolidated and combined balance sheets. The Company also incurred costs of approximately \$13,429,000 and \$12,465,000 for labor services provided by Discovery-related affiliates for the years ended December 31, 2022 and 2021, respectively, of which approximately \$0 and \$11,000, respectively, are included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets. The Company incurred approximately \$154,000 and \$242,000 in design services provided by Discovery Design, a Discovery-related affiliate, for the years ended December 31, 2022 and 2021, respectively, of which \$0 is included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets for both years then ended.

The Company incurred approximately \$0 and \$67,000 in club activity costs related to a Property Access and Use Agreement with JAC Entertainment, LLC, for the years ended December 31, 2022 and 2021, respectively, of which approximately \$0 are included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets for both years then ended. JAC Entertainment, LLC is the holder of a lease agreement with Six Colorado Venture Limited, a related party through an ownership interest in the Company. The lease agreement is subject to the Property Access and Use Agreement described above. In 2020, the Company began paying realty fees to a Discovery-related affiliate. As of December 31, 2022 and 2021, the Company paid approximately \$3,896,000 and \$7,834,000, respectively, in realty fees, of which \$27,804 and \$0, respectively, was included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets.

As of December 31, 2022 and 2021, the Company incurred approximately \$220,000 and \$352,000, respectively, related to monthly financial consulting services and reimbursed expenses paid to a JPD affiliate. There were no amounts included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets as of either year.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 8. Related-Party Transactions (Continued)

In August 2020, the Company entered into a profits interest agreement with a JPD affiliate. Upon paying off the \$25,000,000 related-party note payable to a JPD affiliate (Note 8), the Company agreed to pay 150% of JPD's capital investment in Driftwood Golf Club Development, Inc. up to a maximum amount of \$5,625,000 after certain cash flow hurdles were met. In 2021, the Company paid off the related-party note payable, and then paid the maximum \$5,625,000 to the JPD affiliate in full.

The Company sold lots to Discovery affiliates equal to \$0 and \$2,300,000 as of December 31, 2022 and 2021, respectively. The Company includes these amounts in deferred income on the consolidated and combined balance sheets and will recognize the income using the cost-input method once the lots are sold to third parties. As of December 31, 2022 and 2021, these lots have not been resold, and as such, no income has been recognized as of either year.

Note 9. Commitments and Contingencies

Incentive and milestone fees: The Company entered into a DMSA with Discovery Driftwood Management, LLC. As part of that agreement, Discovery Driftwood Management, LLC is entitled to a sales fee equal to 10% on certain revenues, as defined per the DMSA. In addition, the Management Company may earn certain milestone and incentive fees associated with the successful development and sale of the Property. Payment of the sales fee is dependent on meeting defined sales thresholds. For the years ended December 31, 2022 and 2021, Discovery Driftwood Management, LLC earned \$9,682,214 and \$18,562,650 in sales incentives, respectively, which are capitalized into real estate under development in the accompanying consolidated and combined balance sheets. At December 31, 2022 and 2021, \$25,831 and \$55,831, respectively, in sales incentives are included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets.

In addition to the incentive fees, Discovery Driftwood Management, LLC can earn milestone fees for achievement of milestones as defined in the DMSA. During both 2022 and 2021, Discovery Driftwood Management, LLC earned \$0 in milestone fees. At December 31, 2022 and 2021, milestone fees of \$0, are included in accounts payable and accrued expenses on the accompanying consolidated and combined balance sheets.

Compensation agreements: The Company entered into compensation agreements as part of the initial acquisition of the Project land. As part of the agreements, the Company is required to pay a compensation fee of 2.5% of the gross sales price for sales of unimproved lots and sales of lots improved with residential units. As closings occur, the Company pays the compensation expense owed with an offset to real estate under development. For the years ended December 31, 2022 and 2021, the Company had recorded \$1,631,375 and \$4,275,413, respectively, under the compensation agreements, which is included in deferred cost of sales in the accompanying consolidated and combined balance sheets.

Legal matters: The Company, through the ordinary course of business, is involved in certain claims, litigations and assessments. Management does not believe there are any such contingencies at December 31, 2022, for which the eventual outcome would have a material adverse impact on the consolidated results of operations of the Company.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 10. Finance Lease Liability

The Company entered into various financing lease agreements that call for monthly fixed payments ranging from approximately \$300 through \$5,000. Capital leases as of December 31, 2021 are now referred to as finance leases upon adoption of ASC 842 as of January 1, 2022. Property and equipment, net, included the following amounts for financing leases at December 31:

	2022	2021
Gross property and equipment	\$ 1,229,134	\$ 604,289
Less accumulated amortization	(506,666)	(251,191)
Equipment under financing leases, net	<u>\$ 722,468</u>	<u>\$ 353,098</u>

The following is a schedule of future minimum lease payments under the financing leases together with the present value of net minimum lease payments as of December 31, 2022:

Years ending December 31:	
2023	\$ 251,253
2024	190,847
2025	152,122
2026	154,957
2027	<u>25,153</u>
Total minimum lease payments	774,332
Less amount representing interest	<u>(45,615)</u>
Present value of net minimum lease payments	<u>\$ 728,717</u>

Note 11. Right-of-use Assets and Operating Lease Liability

The Company entered into various operating leases for golf course equipment, vehicles and other equipment during the period from December 2019 through June 2022. The Company recognizes lease expense on ROU assets totaling approximately \$870,000 for 2022, which is included in general and administrative expense on the accompanying consolidated and combined statements of income. The Company also made cash payments of approximately \$927,000 towards its operating lease liability, reducing the operating lease liability to approximately \$1,480,000.

The leases require monthly payments ranging from approximately \$1,000 to \$40,000 per month.

**Driftwood DLC Austin Investments, LP and Subsidiaries, and
Driftwood Golf Club Development, Inc.**

Notes to Consolidated and Combined Financial Statements

Note 11. Right-of-use Assets and Operating Lease Liability (Continued)

Future minimum lease payments under these noncancelable operating lease agreements (with initial or remaining lease terms exceeding one year) are as follows:

Years ending December 31:

2023	\$ 647,707
2024	318,536
2025	258,959
2026	284,328
Subtotal	<u>1,509,530</u>
Less amounts representing interest	<u>(29,423)</u>
Lease liability	<u><u>\$ 1,480,107</u></u>

Note 12. Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through June 6, 2023, the date the financial statements were available to be issued.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

An opinion in substantially the following form will be delivered by Winstead PC, Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

The opinion will be issued on firm letterhead.

March 26, 2024

**DRIFTWOOD CONSERVATION DISTRICT
UNLIMITED TAX UTILITY BONDS, SERIES 2024
IN THE ORIGINAL PRINCIPAL AMOUNT OF \$8,400,000**

We have acted as “Bond Counsel” to Driftwood Conservation District (the “District”) in connection with the issuance of the bonds described above (the “Bonds”) for the sole purpose of providing legal advice and traditional legal services to the District including rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds or with respect to the sufficiency of security or marketability of the Bonds. We have relied solely on information and certifications furnished to us by the District with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the Board of Directors of the District (the “Board”); an order of the Board authorizing the Bonds adopted on February 22, 2024 (the “Order”); the Official Notice of Sale; the awarded bid; the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the District (including a “Federal Tax Certificate”), and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant. We have examined executed Bond No. T-1.

Based on said examination and in accordance with customary legal opinion practice, it is our opinion that:

1. The District is a validly existing political subdivision of the State of Texas with power to adopt the Order, perform its agreements therein, and issue the Bonds.
2. The Bonds have been authorized, sold, and delivered in accordance with law.
3. The Bonds constitute valid and legally binding obligations of the District enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors’ rights generally.

4. Ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District, necessary to pay the interest on and principal of the Bonds, have been pledged irrevocably for such purpose.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Code and is not an item of tax preference for purposes of the federal alternative minimum tax; however, such interest may be taken into account in determining the “annual adjusted financial statement income” (as defined in section 56A of the Code) of “applicable corporations” (as defined in Section 59(K) of the Code) for the purpose of computing alternative minimum tax imposed on corporations.

We call your attention to the fact that the ownership of obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

The Service has an ongoing audit program to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the District as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

In rendering these opinions, we have relied upon representations and certifications of the District, the District’s financial advisor, and the initial purchaser of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the District with covenants pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the District fails to comply with the foregoing covenants, interest on the Bonds could become includable in gross income retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds.

The opinions set forth above are based on existing laws of the United States (including statutes, regulations, published rulings, and court decisions) and the State of Texas, which are subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds, the sufficiency of the security for, or the marketability of the Bonds.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein and is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

APPENDIX E

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:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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