

OFFICIAL STATEMENT DATED JULY 30, 2019

NEW ISSUE -BOOK-ENTRY-ONLY

RATINGS: BAM Insured S&P "AA"

See "MUNICIPAL BOND RATING" AND "MUNICIPAL BOND INSURANCE"

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

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

\$5,925,000

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX BONDS, SERIES 2019**

Dated: August 14, 2019

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

Interest on the \$5,925,000 Southeast Williamson County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2019 (the "Bonds") will accrue from the Date of Initial Delivery, defined below, and is payable March 1, 2020 and each September 1 and March 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrar for the Bonds is UMB Bank, N.A., Austin, Texas (the "Paying Agent" or "Paying Agent/Registrar"). The Bonds are obligations solely of Southeast Williamson County Municipal Utility District No. 1 (the "District") and are not obligations of the City of Georgetown, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District.

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 Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY**. See "MUNICIPAL BOND INSURANCE."



**MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS,
REDEMPTION PROVISIONS and CUSIP NUMBERS
(see inside cover page)**

The Bonds, when issued, will constitute valid and legally binding obligations of the District payable solely from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS - Source of and Security for Payment." This cover page contains information for quick reference only and is not a summary of the Bonds. Potential investors must read this entire Official Statement to obtain information essential to making an informed investment decision. INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "RISK FACTORS" herein.

The Bonds are offered by the initial purchaser (the "Initial Purchaser") subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel to the District. Delivery of the Bonds is expected through the facilities of DTC on or about August 14, 2019 (the "Date of Initial Delivery") in Austin, Texas.

MATURITIES
(Due September 1)

CUSIP Prefix: 841529

Due	Principal Amount	Interest Rate ^(a)	Initial		Due	*	Principal Amount	Interest Rate ^(a)	Initial	
			Reoffering Yield ^(b)	CUSIP Suffix ^(c)					Reoffering Yield ^(b)	CUSIP Suffix ^(c)
2022	\$ 60,000	2.000%	1.500%	AB6	2030	*	\$ 240,000	2.500%	2.500%	AK6
2023	180,000	2.000%	1.550%	AC4	2031	*	250,000	2.500%	2.650%	AL4
2024	185,000	2.000%	1.650%	AD2	2032	*	260,000	2.750%	2.800%	AM2
2025	195,000	2.000%	1.750%	AE0	2033	*	270,000	2.750%	2.850%	AN0
2026	200,000	2.000%	1.900%	AF7	2034	*	280,000	3.000%	2.700%	AP5
2027	210,000	2.000%	2.050%	AG5	2035	*	295,000	3.000%	2.750%	AQ3
2028	* 220,000	2.125%	2.200%	AH3	2036	*	305,000	3.000%	2.800%	AR1
2029	* 230,000	2.250%	2.350%	AJ9	2037	*	320,000	3.000%	2.850%	AS9

\$685,000 3.000%^(a) Term Bond due September 1, 2039* Yield 2.900%^(b) CUSIP Suffix AU4^(c)
 \$1,540,000 3.000%^(a) Term Bond due September 1, 2043* Yield 3.000%^(b) CUSIP Suffix AY6^(c)

* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2028, in whole or from time to time in part, on September 1, 2027, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2039 and September 1, 2043 (the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97.463581% of par, resulting in a net effective interest rate to the District of 3.008776%.
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser. The yields may be changed at any time at the discretion of the Initial Purchaser.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. Neither the Initial Purchaser, the District, nor Public Finance Group LLC, the District's financial advisor (the "Financial Advisor"), is responsible for the selection or correctness of the CUSIP numbers set forth herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part as a result of the procurement of secondary market portfolio insurance or other similar enhancements by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Financial Advisor, 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 shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the 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, to the extent that information actually comes to its attention, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT - Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

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

THE CONTENTS OF THIS OFFICIAL STATEMENT ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE, AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN ATTORNEYS AND BUSINESS AND TAX ADVISORS.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of Robert W. Baird & Company, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 97.463581% of par. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by and are the sole responsibility of the Initial Purchaser.

On April 1, 2019, Baird Financial Corporation, the parent company of Baird, acquired HL Financial Services, LLC, its subsidiaries, affiliates and assigns (collectively "Hilliard Lyons"). As a result of such common control, Baird, Hilliard Lyons and Hilliard Lyons Trust Company are now affiliated. It is expected that Hilliard Lyons will merge with and into Baird later in 2019.

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 Initial Delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

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

Securities Laws

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

No registration statement relating to the offer and sale of the Bonds has been filed with the 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.

The statements contained in this Official Statement, and in other information provided by the District, that are not purely historical, are forward-looking statements, including regarding the District's expectations, hopes, intentions or strategies regarding the future. 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. See "RISK FACTORS – Forward-Looking Statements."

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

MUNICIPAL BOND RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") are expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds.

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com. BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole

discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$513.9 million, \$105 million and \$408.9 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. Potential investors must read this entire Official Statement to obtain information essential to making an informed investment decision. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement. Investment in the Bonds is subject to certain risk factors. See "RISK FACTORS."

THE DISTRICT

- The District Southeast Williamson County Municipal Utility District No. 1 (the "District"), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), effective July 13, 2015, and confirmed pursuant to an election held within the District on November 3, 2015. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The District also has road powers under Section 54.234 of the Texas Water Code. The District contains approximately 508.785 acres. See "THE DISTRICT – General."
- Location The District is located entirely within the extraterritorial jurisdiction of the City of Georgetown, Texas ("Georgetown" or the "City"). The northern part of the District is referred to as Saddlecreek and is located in the east side of the City on the western side of State Highway 130, north of Sam Houston Avenue and east of Southeast Inner Loop. County Road 104 and Sam Houston Avenue that border's the tract's southern boundary provides both northbound and southbound access to State Highway 130. The southern part of the District is platted as the Kasper Tract and is located south of Sam Houston Avenue, at the northwest corner of Rockridge Lane and north of Westinghouse Road in the City of Georgetown's extraterritorial jurisdiction. Westinghouse Road provides access to IH 35 and Rockridge Lane provides access to State Highway 130 via Sam Houston Avenue. The Kasper Tract is marketed as Fairhaven in signage within the District and referred to herein as the Fairhaven Tract. See "LOCATION MAP" and "THE DISTRICT - Location."
- The Developers The Developers currently active within the District are Woodhull Ventures 2015, LP, a Delaware limited partnership ("Woodhull Ventures"), and Continental Homes of Texas, L.P., a Texas limited partnership and subsidiary of D.R. Horton Inc. ("Continental Homes") (Woodhull Ventures and Continental Homes are collectively referred to herein as the "Developers"). See "THE DEVELOPERS."
- Status of Development The District contains approximately 508.785 acres, of which approximately 421.9150 acres are developable. As of May 1, 2019, approximately 397.876 acres of land within the District (or 94.30% of the developable acres within the District) has been or are currently being developed with utility facilities as the single family residential subdivision Saddlecreek Phases 1A, 1B, 1C, 1D, 1E, 2A, 2B, 2C, 2D, 2E, 3, 4, 5, 6, 7, and 12 and as Fairhaven Sections 1, 2, 3, 4, 5, 6A, 6B, 7, 8, and 9 which encompass a total of 1,323 single-family lots, which include 313 completed homes, 102 homes under construction, and 908 vacant single-family lots. As of May 1, 2019, there are approximately 70.84 remaining developable acres within the District, which is anticipated to be developed as both the remaining single-family development within Fairhaven, and as single-family and multi-family developments within Saddlecreek. "THE DISTRICT – Historical and Current Status of Development."
- Homebuilders According to Woodhull Ventures, there are currently seven (7) active homebuilders within the Saddlecreek development: CastleRock Communities, Century Communities, Pacesetter Homes, D. R. Horton, Chesmar Homes, Lennar Homes, and Gray Point Homes. Additionally, construction of an apartment complex and townhomes on approximately 33 acres is expected to begin in January 2021. According to Continental homes, D.R. Horton is the only active homebuilder within the Fairhaven Tract. According to the Woodhull Ventures, CastleRock Communities' homes range in price from approximately \$219,990 to \$283,990, with square footage ranging from approximately 1,604 to 2,817. According to Woodhull Ventures, Century Communities' homes range in price from approximately \$213,990 to \$299,990, with square footage ranging from approximately 1,205 to 2,703. According to the Woodhull Ventures, Pacesetter Homes' homes range in price from approximately \$219,900 to \$276,900, with square footage ranging from approximately 1,188 to 2,130. According to the Developers, D. R. Horton's homes range in price from approximately \$218,990 to \$283,990, with square footage ranging from approximately 1,366 to 2,531. According to the Woodhull Ventures, Chesmar Homes' homes range in price from approximately \$302,990 to \$334,170, with square footage ranging from approximately 2,055 to 2,788. According to the Woodhull Ventures, Lennar Homes' homes range in price from approximately \$288,900 to \$344,900, with square footage ranging from 1,622 to 2,970. According to the Woodhull Ventures, Gray Point Homes' homes range in price from approximately \$214,990 to \$259,990, with

square footage ranging from approximately 1,300 to 2,420. See “THE DEVELOPERS – Homebuilders within Saddlecreek” and “THE DEVELOPERS – Homebuilder within Fairhaven Tract.”

THE BONDS

Description.....	The Bonds in the aggregate principal amount of \$5,925,000 mature serially in varying amounts on September 1 of each year from 2022 through 2037, inclusive, and as term bonds which mature on September 1, 2039 and September 1, 2043 (the “Term Bonds”), as set forth on the inside cover page hereof. Interest accrues from the Date of Initial Delivery at the rates per annum set forth on the inside cover page hereof and is payable March 1, 2020 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
Redemption.....	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2028, in whole or from time to time in part, on September 1, 2027, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, the Term Bonds maturing September 1, 2039 and September 1, 2043 are also subject to mandatory sinking fund redemption. See “THE BONDS - Redemption.”
Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax , without legal limitation as to rate or amount, levied upon all taxable property within the District. See “TAXING PROCEDURES.” The Bonds are obligations solely of the District and are not obligations of the City of Georgetown, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District. See “THE BONDS - Source of and Security for Payment.”
Payment Record.....	The Bonds constitute the first installment of bonds issued by the District. See “FINANCIAL STATEMENT - Outstanding Bonds.”
Authority for Issuance.....	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended; a bond election held within the District on May 7, 2016; the approving Order of the TCEQ; and an order adopted by the Board of Directors of the District authorizing the sale of the Bonds on the date of the sale of the Bonds. See "THE BONDS - Authority for Issuance."
Use of Proceeds.....	<p>The proceeds of the Bonds will be used to finance a portion of the District’s share of : (i) Saddlecreek Offsite Wastewater Improvements; (ii) Saddlecreek Phase 2 Offsite Wastewater Improvements; (iii) Kasper Offsite Wastewater Improvements; (iv) Kasper Lift Station Improvements; and (v) to reimburse the developer for certain operating and creation expenses funded on behalf of the District.</p> <p>The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four (24) months' interest requirements on the Bonds; (ii) pay developer interest; (iii) pay certain engineering costs; and (iv) pay other costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."</p>
Bonds Authorized But Unissued.....	At an election held within the District on May 7, 2016, voters within the District authorized a total of \$97,550,000 in aggregate principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, wastewater and drainage facilities. The Bonds constitute the first installment of bonds issued by the District. After the issuance of the Bonds, the District will have \$91,625,000 aggregate principal amount of remaining authorized but unissued unlimited tax new money bonds for water, wastewater and drainage facilities. Additionally, at the election held in the District on May 7, 2016, the voters within the District also approved the issuance of unlimited tax bonds for park and recreational facilities in the aggregate principal amount of \$22,130,000; the issuance of unlimited tax road bonds for the purpose of acquiring or constructing road facilities and related improvements in the aggregate principal amount of \$24,335,000, all of which remains authorized but unissued. See “FINANCIAL STATEMENT - Outstanding Bonds” and “THE BONDS – Issuance of Additional Debt.”
Municipal Bond Rating and Insurance.....	Standard & Poor’s Rating Service, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) is expected to assign a rating of “AA” (stable outlook) to the Bonds, as a result of municipal bond insurance policy issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”) at the time of delivery of the Bonds.

Qualified Tax-Exempt Obligations	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2019 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions.”
General Counsel	Armbrust & Brown, PLLC, Austin, Texas
Bond Counsel and Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Austin, Texas
Financial Advisor	Public Finance Group LLC, Austin, Texas
Engineer	Jones-Heroy & Associates, Inc., Austin, Texas
Paying Agent / Registrar	UMB Bank, N.A., Austin, Texas

RISK FACTORS

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

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SELECTED FINANCIAL INFORMATION
(Unaudited)

2018 Certified Assessed Valuation	\$ 24,524,108	(a)
2019 Certified Assessed Valuation	\$ 86,406,944	(b)
Estimated Assessed Valuation as of May 1, 2019	\$135,200,000	(c)
Gross Debt Outstanding (after issuance of the Bonds)	\$ 5,925,000	(d)
Ratio of Gross Debt to 2018 Certified Assessed Valuation ^(a)	24.16%	
Ratio of Gross Debt to 2019 Certified Assessed Valuation ^(b)	6.86%	
Ratio of Gross Debt to Estimated Assessed Valuation as of May 1, 2019 ^(c)	4.38%	
2018 Tax Rate		
Debt Service	\$ -	
Maintenance	<u>0.5400</u>	
Total 2018 Tax Rate	<u>\$ 0.5400</u>	(e)
Debt Service Fund Balance (after the issuance of the Bonds)	\$ 356,540	(f)
Percentage of current tax collections (Tax Years 2016-2018)	99.69%	(g)
Percentage of total tax collections (Tax Years 2016-2018)	99.69%	(g)
Average Annual Debt Service Requirement of the Bonds ("Average Requirement") (2022-2043, inclusive)	\$ 372,597	
Tax Rate required to pay Average Requirement based upon 2018 Certified Assessed Valuation ^(a) at 95% collections	\$ 1.60	/\$100 AV
Tax Rate required to pay Average Requirement based upon 2019 Certified Assessed Valuation ^(b) at 95% collections	\$ 0.46	/\$100 AV
Tax Rate required to pay Average Requirement based upon the Estimated Assessed Valuation as of May 1, 2019 ^(c) at 95% collections	\$ 0.30	/\$100 AV
Maximum Annual Debt Service Requirement of the Bonds ("Maximum Requirement") (2039)	\$ 422,300	
Tax Rate required to pay Maximum Requirement based upon 2018 Certified Assessed Valuation ^(a) at 95% collections	\$ 1.82	/\$100 AV
Tax Rate required to pay Maximum Requirement based upon 2019 Certified Assessed Valuation ^(b) at 95% collections	\$ 0.52	/\$100 AV
Tax Rate required to pay Maximum Requirement based upon the Estimated Assessed Valuation as of May 1, 2019 ^(c) at 95% collections	\$ 0.33	/\$100 AV
Number of active connections as of May 1, 2019		
Single Family - Complete & Occupied	313	
Single Family - Builder & Vacant	<u>102</u>	
Total Number of Active Connections	415	
Estimated Population as of May 1, 2019	1,096	(h)

(Footnotes appear on following page)

- (a) The certified assessed valuation as of January 1, 2018, as provided by the Williamson Central Appraisal District ("WCAD"). See "TAXING PROCEDURES."
- (b) The certified assessed valuation as of January 1, 2019, as provided by WCAD. See "TAXING PROCEDURES."
- (c) The estimated assessed valuation as of May 1, 2019, as provided by WCAD, is included solely for purposes of illustration. No taxes will be levied on this assessed valuation unless it is certified by WCAD. See "TAXING PROCEDURES."
- (d) Includes the Bonds.
- (e) The District's Board, at its meeting in September 2018, levied a maintenance tax only for a 2018 total tax rate of \$0.5400. The District anticipates levying a 2019 total tax rate of \$0.5400, including a \$0.1850 debt service tax and \$0.3550 maintenance tax in September 2019. See "TAXING PROCEDURES."
- (f) Represents approximately twenty-four (24) months of capitalized interest (\$356,540) included in the Bond proceeds, to be deposited into the Debt Service Fund upon closing. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.
- (g) See "TAX DATA – Tax Collections."
- (h) Based upon 3.5 residents per completed and occupied single family home.

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OFFICIAL STATEMENT
relating to
\$5,925,000
Southeast Williamson County Municipal Utility District No. 1
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX BONDS, SERIES 2019

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Southeast Williamson County Municipal Utility District No. 1 (the “District”), a political subdivision of the State of Texas (the “State”), of its \$5,925,000 Unlimited Tax Bonds, Series 2019 (the “Bonds”).

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District on the date of the sale of the Bonds authorizing the issuance of the Bonds (the “Bond Order”), Article XVI, Section 59 of the Constitution, and the general laws of the State, including Chapters 49 and 54 of the Texas Water Code, as amended; a bond election held within the District on May 7, 2016; and the approving order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”).

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701, or from the District’s Financial Advisor, Public Finance Group LLC, 900 South Capital of Texas Highway, Building IV, Suite 475, West Lake Hills, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

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

THE BONDS

General Description

The Bonds will bear interest from the Date of Initial Delivery and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on March 1, 2020 and each September 1 and March 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent and registrar for the Bonds is UMB Bank, N.A., Austin, Texas (the “Paying Agent” or “Paying Agent/Registrar”).

Redemption

Optional Redemption... The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2028, in whole or from time to time in part, on September 1, 2027, or on any date thereafter, at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

Mandatory Sinking Fund Redemption... In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2039 and September 1, 2043 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Debt Service Fund:

\$685,000 Term Bond Maturing September 1, 2039	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2038	\$ 335,000
2039*	350,000

\$1,540,000 Term Bond Maturing September 1, 2043	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2040	\$ 360,000
2041	375,000
2042	395,000
2043*	410,000

*Stated Maturity

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

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

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

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

Selection of Bonds for Redemption

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

DTC Redemption Provision

The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of optional redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to the DTC Participants. Neither the District nor the Paying Agent/Registrar will have any responsibility to the DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees, with respect to the

payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

Termination of Book-Entry-Only System

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

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

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

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

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

Authority for Issuance

At an election held within the District on May 7, 2016, voters within the District authorized a total of \$97,550,000 in aggregate principal amount of new money unlimited tax bonds for the purpose of acquiring or constructing water, wastewater and drainage facilities. The amount of unlimited tax bonds to be issued by the District, however, is further limited by the Consent Agreement, defined herein, which provides that the total principal amount of unlimited tax bonds to be issued by the District is limited to \$52,975,000, unless otherwise agreed to by the City. The Bonds constitute the first installment of bonds issued by the District. After the issuance of the Bonds, the District will have \$91,625,000 aggregate principal amount of remaining authorized but unissued unlimited tax new money bonds for the purpose of acquiring and constructing water, wastewater and drainage facilities. Additionally, at the election held in the District on May 7, 2016, the voters within the District approved the issuance of unlimited tax bonds in the aggregate principal amount of \$22,130,000 for the purpose of acquiring or constructing park and recreational facilities; and \$24,335,000 in aggregate principal amount of new money bonds for the purpose of acquiring or constructing road facilities; and \$216,022,500 in aggregate principal amount for refunding bonds, all of which remains authorized but unissued.

The Bonds are issued pursuant to the terms and provisions of the Bond Order, Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by an order of the TCEQ.

Source of and Security for Payment

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against all taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes when and if the City of Georgetown, Texas (the "City" or "Georgetown") annexes and dissolves the District and assumes all debts and liabilities of the District.

Under prior Texas law, a municipality could annex and dissolve a municipal utility district located within its extraterritorial jurisdiction without consent of the district or its residents. Under House Bill 347 approved during the 86th Regular Legislative Session ("HB 347") (a), a municipality may annex a district with a population of less than 200 residents only if: (i) the municipality obtains consent to annex the area through a petition signed by more than 50% of the registered voters of the district, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation (b) a municipality may annex a district with a population of 200 residents or more only if: (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation. Notwithstanding the foregoing, a municipality may annex an area if each owner of land in the area requests the annexation. As of May 1, 2019, the District had an estimated population of 1,096, thus triggering the voter approval and/or landowner consent requirements discussed in clause (b) above. The described election and petition process does not apply, however, during the term of a strategic partnership agreement between a municipality and a district specifying the procedures for annexation of all or a portion of the District.

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

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

Payment Record

The Bonds constitute the first installment of bonds issued by the District. See "FINANCIAL STATEMENT – Outstanding Bonds."

Flow of Funds

The Bond Order creates a Debt Service Fund and a Capital Projects Fund.

Each fund shall be kept separate and apart on the books and record of the District from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds.

Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of the State of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

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

Capital Projects Fund... The Capital Projects Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Capital Projects Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund provided in the Bond Order. The Capital Projects Fund may be applied solely to (i) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued, (ii) pay the costs of issuing the Bonds and (iii) to the extent the proceeds of the Bonds and investment income attributable thereto are in excess of the amounts required to acquire and construct water, wastewater and drainage facilities as approved by TCEQ, then in the discretion of the Board of Directors of the District to transfer such unexpended proceeds or income to the Debt Service Fund or to utilize such funds as otherwise authorized by the TCEQ.

Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid by the initial Paying Agent/Registrar, UMB Bank, N.A., having an office for payment in Austin, Texas. Any Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

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

Defeasance of Outstanding Bonds

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

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

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

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

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

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

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

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

Record Date

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

Issuance of Additional Debt

The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ, if applicable, and, in the case of bonds payable from taxes, the District's voters. See "THE BONDS – Authority for Issuance" for details regarding authorized but unissued Bonds of the District. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bond which may be issued by the District. Any additional bonds issued by the District may dilute the security for the Bonds.

The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a municipal utility district "shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts and all other kinds and types of districts, public agencies and bodies politic." Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes or other obligations issued by a municipal utility district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "MUNICIPAL BOND RATINGS AND INSURANCE".

The Bonds are not rated and the District makes no representation that the Bonds will be acceptable to banks, savings and loan associations, or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

Specific Tax Covenants

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

Additional Covenants

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

Remedies in Event of Default

The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson I*"), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interest, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("*Wasson II*", and together with *Wasson I*, "*Wasson*"), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the state's immunity since they are performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated on the facts and circumstances surrounding the contract in question. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Consolidation

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

Annexation

The District lies entirely within the extraterritorial jurisdiction of the City. Under prior Texas law, a municipality could annex and dissolve a municipal utility district located within its extraterritorial jurisdiction without consent of the District or its residents; however, under HB 347, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation. See "THE BONDS – Source of and Security of Payments."

Alteration of Boundaries

In certain circumstances, under Texas law the District may alter its boundaries to: (i) upon satisfying certain conditions, annex additional territory; and (ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain

conditions are satisfied, including the District's simultaneous annexation of land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District will effect any change in its boundaries.

Approval of the Bonds

The TCEQ approved the issuance of the Bonds by an order signed on June 19, 2019 (the "TCEQ Order").

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

Amendments to the Bond Order

The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest therein, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may within the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Financial Advisor take any responsibility for the accuracy thereof.

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USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance a portion of the District's share of : (i) Saddlecreek Offsite Wastewater Improvements; (ii) Saddlecreek Phase 2 Offsite Wastewater Improvements; (iii) Kasper Offsite Wastewater Improvements; (iv) Kasper Lift Station Improvements; and (v) to reimburse the developer for certain operating and creation expenses funded on behalf of the District. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four (24) months' interest requirements on the Bonds; (ii) pay developer interest; (iii) pay certain engineering costs; and (iv) pay other costs associated with the issuance of the Bonds.

The use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$4,187,586 is required for construction costs, and \$1,737,414 is required for non-construction costs, including \$356,540 of capitalized interest (approximately twenty-four (24) months' interest estimated at 3.008776%).

Construction Costs

A. Developer Contribution Items

1. N/A

Total Developer Contribution Items	\$ -
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B. District Items

- | | |
|--|--------------|
| 1. Saddlecreek Offsite Wastewater Improvements | \$ 1,751,455 |
| 2. Saddlecreek Offsite Wastewater Phase 2 Improvements | 185,446 |
| 3. Kasper Offsite Wastewater Improvements | 925,920 |
| 4. Kasper Lift Station Improvements | 543,000 |
| 5. Engineering Costs for Items 1 - 4 | 781,765 |

Total District Items	4,187,586
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Total Construction Costs	\$ 4,187,586
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Non-Construction Costs

- | | |
|--|-----------|
| A. Legal Fees (1.5%) | \$ 88,875 |
| B. Bond Counsel Fees (1.5%) | 88,875 |
| C. Fiscal Agent Fees (2.5%) | 148,125 |
| D. Interest | |
| 1 Capitalized Interest (2 years @ 3.008776%) | 356,540 |
| 2 Developer Interest ^(a) | 410,023 |
| E. Bond Discount (2.536419%) | 150,283 |
| F. Bond Issuance Expenses | 34,002 |
| G. Operating Costs | 143,050 |
| H. Creation Legal Costs | 54,539 |
| I. Bond Application Report | 52,312 |
| J. Market Study (Bond issue) | 15,500 |
| K. Attorney General Fee (0.10%) | 5,925 |
| L. TCEQ Bond Issuance Fee (0.25%) | 14,813 |
| M. Contingency ^(b) | 174,552 |

Total Non-Construction Costs	\$ 1,737,414
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TOTAL BOND ISSUE REQUIREMENT	\$ 5,925,000
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(a) Preliminary; subject to change. The amount of Developer interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.

(b) The TCEQ, in its approval of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEQ rules on use of surplus Bond funds.

RISK FACTORS

General

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

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

Factors Affecting Taxable Values and Tax Payments

Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures: A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for lots and residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing values.

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which developers and homebuilders are able to obtain financing for development and construction costs. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. Because of the changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District.

Competition: The demand for single-family homes in the District could be affected by competition from other residential developments, including other residential developments located in other utility districts located near the District. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Georgetown that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

The competitive position of developers in the sale of developed lots and of homebuilders in the construction of single-family residential houses within the District 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 developers within the District, Woodhull Ventures 2015, LP (“Woodhull Ventures”) and Continental Homes of Texas, L.P. (“Continental Homes”) (collectively referred to herein as the “Developers”) will be implemented or, if implemented, will be successful.

Developers under No Obligation to the District: There is no commitment from, or obligation of, any developer 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, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots and tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developers and the other principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such financial conditions may have on their ability to pay taxes. See “THE DEVELOPERS” and “TAX DATA - Principal Taxpayers.”

Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2018 Certified Assessed Valuation of the District is \$24,524,108. After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$422,300 (2039) and the Average Annual Debt Service Requirement will be \$372,597 (2022 through 2043, inclusive). Assuming (1) no increase or decrease from the 2018 Certified Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$1.82 and \$1.60 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirement, respectively. The District's 2019 Certified Assessed Valuation is \$86,406,944. Based upon the assumptions above and the 2019 Certified Assessed Valuation, tax rates of \$0.52 and \$0.46 per \$100 assessed valuation at ninety-five percent (95%) collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirement, respectively. The District's Estimated Assessed Valuation as of May 1, 2019, is \$135,200,000. Based upon the assumptions above and the Estimated Assessed Valuation as of May 1, 2019, tax rates of \$0.33 and \$0.30 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum

Annual Debt Service Requirement and the Average Annual Debt Service Requirement, respectively. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

Dependence Upon the Developers, Lot Owners and Homebuilders: The growth of the tax base is dependent upon additional development of lots in the District and the construction of homes thereon. The Developers are under no obligation to continue to market, or improve, or to develop tracts of land. Thus, the furnishing of information related to the proposed development by the Developers should not be interpreted as such a commitment by the Developers. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developers, or any other subsequent landowner to whom such party may sell all or a portion of its holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developers' right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances or regulations may have on any plans of the Developers. Failure to construct taxable improvements on developed lots and tracts or failure of the Developer to develop its land would restrict the rate of growth of taxable value in the District. See "THE DEVELOPERS."

The two principal taxpayers in the District, Continental Homes and Pacesetter Homes, LLC, homebuilders within the District, represent a combined \$23,704,540 or 27.43% of the District's 2019 Certified Taxable Assessed Valuation. The Developers represent \$17,683,517 or 20.47% of such assessed valuation. If the Developers or homebuilders (or other principal taxpayer) 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 debt service fund. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAX DATA – Principal Taxpayers," and "TAXING PROCEDURES – Levy and Collection of Taxes."

Undeveloped Acreage . . . Approximately 70.84 acres of developable land within the District has not been provided with water, wastewater and storm drainage and detention facilities as of May 1, 2019. In the opinion of the District's engineers, the remaining authorized but unissued bonds should be sufficient to fund water, sanitary sewer and drainage services to all areas now within the District. There is no assurance that such undeveloped acreage will be developed. See "THE BONDS – Alteration of Boundaries" and "THE DISTRICT – Status of Development."

Development and Home Construction in the District . . . As of May 1, 2019 approximately 908 developed lots within the District have been sold to homebuilders within the District and remain available for construction. Failure of the Developers and/or builders 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 any other tax supported debt of the District issued in the future. Future increases in value will result primarily from the construction of homes by builders. See "Maximum Impact on District Tax Rates" above.

Tax Collections and Foreclosure Remedies

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

Registered Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest of the registered owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

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 for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

Bankruptcy Limitation to Registered Owners' Rights

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

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

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district. A district may not be forced into bankruptcy involuntarily.

The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

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

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

Continuing Compliance with Certain Covenants

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

Future Debt

As of May 1, 2019, approximately 397,876 acres of land within the District have been or are currently being developed with utility facilities by the Developer. According to information obtained by Jones-Heroy & Associates, Inc., (the "Engineer"), the Developer has advanced approximately \$16,359,441 in construction and engineering costs, of which approximately \$12,171,854 will remain owing to the Developer after the issuance of the Bonds.

Therefore, the Developers are owed additional funds with reimbursements expected to be made from the proceeds of future installments of bonds over the next several years. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see “THE DEVELOPERS – Utility Development Agreements.” The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS – Issuance of Additional Debt.”

The District has reserved in the Bond Order the right to issue the remaining authorized but unissued bonds approved by the voters. See “THE BONDS – Authority for Issuance.” All of the remaining unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Board, the Attorney General of the State of Texas and the TCEQ.

Governmental Approval

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS." The TCEQ approved the issuance of the Bonds by an order signed on June 19, 2019 (the “TCEQ Order”). In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

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

No Requirement to Build on Developed Lots

Currently, there is no requirement that builders owning developed lots within the District commence or complete construction of improvements within any particular time period. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable value in the District.

Forward-Looking Statements

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

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

Environmental Regulation

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

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

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance of and the ability to operate the District’s water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area’s ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality Issues. The Federal Clean Air Act (“CAA”) requires the United States Environmental Protection Agency (the “EPA”) to adopt and periodically revise national ambient air quality standards (“NAAQS”) for each air pollutant that may reasonably be anticipated to endanger public health or welfare. Areas that exceed the NAAQS for a given pollutant can be designated as nonattainment by the EPA. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and “attain” compliance with the appropriate standard. This so called State Implementation Plan (“SIP”) entails enforceable control measures and time frames.

In 1997, the EPA adopted the “8-hour” ozone standard of 80 parts per billion (“ppb”) (the “1997 Ozone Standard”) to protect public health and welfare. In 2008, the EPA lowered the ozone standard to 75 ppb (the “2008 Ozone Standard”). The Austin area, consisting of Williamson, Hays, Travis, Bastrop and Caldwell Counties (the “Austin Area”) was not designated “nonattainment” under the 2008 Ozone Standard.

On October 1, 2015, the EPA lowered the ozone standard to 70 ppb (the “2015 Ozone Standard”). On May 1, 2018, the EPA designated the Austin Area as “attainment” under the 2015 Ozone Standards, which became effective on August 3, 2018.

Should the Austin Area fail to achieve EPA NAAQS, or should the Austin Area fail to satisfy a then effective SIP (for nonattainment or otherwise), or for any other reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of nonattainment/conformity analysis, the status of EPA’s implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the near future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development in the Austin Area.

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

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

In 2015, the EPA and the United States Army Corps of Engineers (“USACE”) promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of “waters of the United States.” In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of “waters of the United States” to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of “waters of the United States.” Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR.

This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved. Subsequently, on May 28, 2019, the U.S. District Court for the Southern District of Texas found that the CWR violated the notice-and-comment requirements of the Administrative Procedures Act, remanded the CWR to the EPA and USACE, and ordered that the preliminary injunction issued September 12, 2018, remain in place pending the proceedings on remand.

On December 11, 2018, the EPA and USACE released the proposed replacement definition of “waters of the United States.” The proposed definition outlines six categories of waters that would be considered “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies will take comment on the proposal for 60 days after publication in the Federal Register, which occurred on February 14, 2019. If finalized, the proposed rule would apply nationwide, replacing the patchwork framework for Clean Water Act jurisdiction that has resulted from litigation challenging the CWR.

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

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

Future and Proposed Legislation

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

Drought Conditions

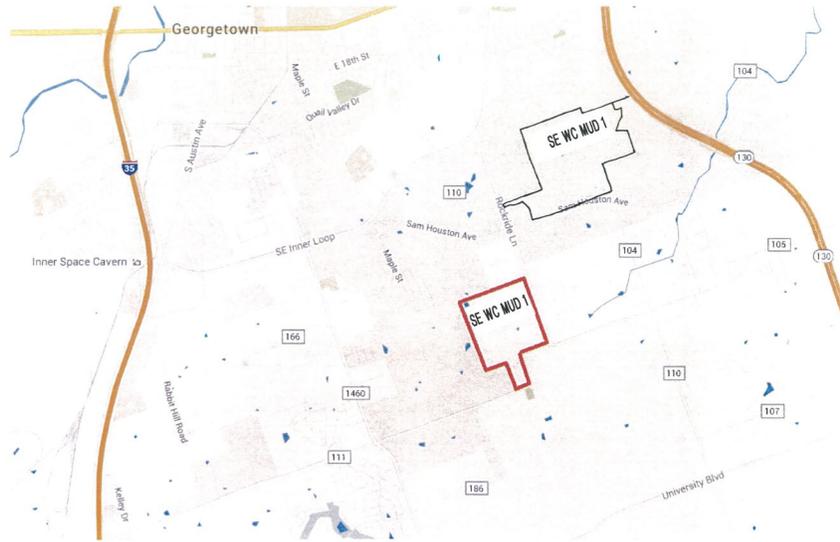
Central Texas, like other areas of the State, is experiencing drought conditions. The City provides water to the District in amounts sufficient to service the residents of the District; however, as drought conditions continue, water usage and rates could be impacted.

Storm Water

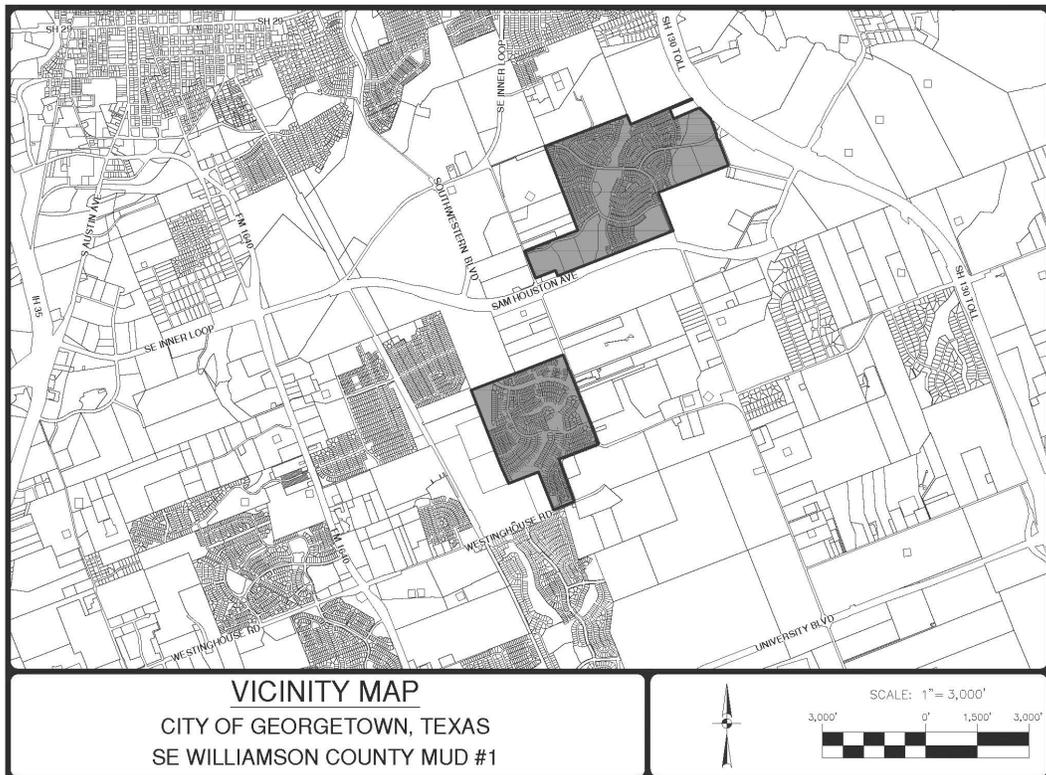
The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on higher statistical rainfall amount, resulting 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 Flood Plain.”

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LOCATION MAPS



LOCATION MAP – SOUTHEAST WILLIAMSON COUNTY MUD NO. 1



THE DISTRICT

General

The District was created by order of the TCEQ, effective July 13, 2015, and confirmed pursuant to an election held within the District on November 3, 2015, and operates under Chapters 49 and 54, Texas Water Code, as amended, and the general statutes of Texas applicable to municipal utility districts.

The District was created to provide water, wastewater and drainage services to the property within the District currently being developed as a single-family development. The District may also develop and finance roads under Section 54.234 of the Texas Water Code and develop and finance park and recreational facilities. The District has entered into utility construction agreements with the Developers in order to facilitate the construction of water, wastewater and drainage facilities, road improvements, and park and recreational facilities to serve property within its boundary.

At the time of creation, the District contained approximately 301.507 acres of land. Since the creation of the District, there have been two annexations of land, and the District currently contains approximately 508.785 acres.

Management

Board of Directors

The District is governed by a board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years, with elections held within the District in May in each even-numbered year. All of the directors own property in the District.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Chris Zigrossi	President	2022	3 Years
Matthew Kruger	Vice President	2020	3 Years
Patrick B. Oliver	Secretary	2022	3 Years
Vera Massaro	Assistant Secretary	2020	3 Years
Shawn Breedlove	Assistant Secretary	2022	3 Years

Consultants

Tax Assessor/Collector

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

Engineer

The District's consulting engineer is Jones-Heroy & Associates, Inc. (the "Engineer"). Such firm serves as consulting engineer to 40 other special districts.

Bookkeeper

Bott & Douthitt, PLLC, certified public accountants, serves as bookkeeper to the District. Such firm serves as bookkeeper to 65 other special districts.

Financial Advisor

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

Bond Counsel and Disclosure Counsel

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

General Counsel

The District employs Armbrust & Brown, PLLC ("AB") as General Counsel. Fees paid to AB for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

Location

The District is located entirely within the extraterritorial jurisdiction of the City of Georgetown, Texas. The northern part of the of the District is referred to herein as the Saddlecreek development and is located in the east side of the City on the western side of State Highway 130, north of Sam Houston Avenue and east of Southeast Inner Loop. County Road 104 and Same Houston Avenue that border's the tract's southern boundary would provide both northbound and southbound access to State Highway 130. The southern part of the District is platted as the Kasper Tract and is located south of Sam Houston Avenue, at the northwest corner of Rockridge Lane and north of Westinghouse Road in the City of Georgetown's extraterritorial jurisdiction. Westinghouse Road provides access to IH 35 and Rockridge Lane provides access to State Highway 130 via Sam Houston Avenue. The Kasper Tract is marketed as Fairhaven in signage within the District and referred to herein as the Fairhaven Tract.

Historical and Current Status of Development of the District

The District as originally created contained approximately 301.507 acres. Since the creation of the District, approximately 207.278 acres have been annexed into the District. The District now contains approximately 508.785 acres. The District was created by order of the Commission effective July 13, 2015, and confirmed pursuant to an election held within the District on November 3, 2015.

The District was created to provide water, wastewater and drainage services to the property within the District currently being developed as a single-family and multi-family development. The District may also develop and finance roads under Section 54.234 of the Texas Water Code and develop and finance park and recreational facilities. The District has entered into utility construction agreements with the Developers in order to facilitate the construction of water, wastewater and drainage facilities, road improvements, and park and recreational facilities to serve property within the its boundary.

In October 2014, Woodhull Venture purchased 301.507 acres of land comprising the District from Woodhull Family Partners, a Texas general partnership. On December 8, 2015, the District annexed 0.131 acres of additional land into the District, which was inadvertently omitted from the District boundaries in the Original Consent Agreement. On December 10, 2015, the District annexed an additional 207.147 acres of land consisting of the Fairhaven Tract into the District.

Saddlecreek Current Status of Development

As of May 1, 2019, Woodhull Ventures has developed or is currently developing utility facilities serving approximately 229.60 acres within the District, developed as Saddlecreek Phase 1A (40.463 acres; platted as 7 lots, which will include an amenity center); Saddlecreek Phase 1B (13.174 acres; platted as 72 single-family homes); Saddlecreek Phase 1C (7.217 acres; platted as 30 single-family homes); Saddlecreek Phase 1D (9.816 acres; platted as 38 single-family homes); Saddlecreek Phase 1E (6.213 acres; platted as 30 single-family homes); Saddlecreek Phase 2A (10.370 acres; platted as 51 single-family homes); Saddlecreek Phase 2B (14.156 acres; platted as 49 single-family homes); Saddlecreek Phase 2C (7.870 acres; platted as 30 single-family homes); Saddlecreek Phase 2D (9.254 acres; platted as 30 single-family homes); Saddlecreek Phase 2E (13.967 acres; platted as 63 single-family homes); Saddlecreek Phase 3 (20.311 acres; platted as 75 single-family homes); Saddlecreek Phase 4 (16.928 acres; platted as 43 single-family homes); Saddlecreek Phase 5 (10.570 acres; platted as 43 single-family homes); Saddlecreek Phase 6 (9.52 acres; platted as 52 single-family homes); Saddlecreek Phase 7 (24.941 acres; platted as 66 single-family homes); and Saddlecreek Phase 12 (14.83 acres; platted as 146 multi-family homes/duplex units). According to Woodhull Ventures, currently 161 of the platted 711 single-family home lots have been completed.

Fairhaven Tract Current Status of Development

As of May 1, 2019, Continental Homes has developed or is currently developing utility facilities serving approximately 207.1450 acres within the District, developed as Fairhaven Section 1 (23.159 acres; platted as 81 single-family homes); Fairhaven Section 2 (11.8620 acres; platted as 54 single-family homes); Fairhaven Section 3 (5.0780 acres; platted as 29 single-family homes); Fairhaven Section 4 (17.8680 acres; platted as 34 single-family homes); Fairhaven Section 5 (17.1370 acres; platted as 44 single-family homes); Fairhaven Section 6A (14.6940 acres; platted as 65 single-family homes); Fairhaven Section 6B (18.3340 acres; platted as 42 single-family homes); Fairhaven Section 7 (19.5210 acres; platted as 83 single-family homes); Fairhaven Section 8 (29.723 acres; planned to be platted as 126 single-family homes); and Fairhaven Section 9 (10.900 acres; planned to be platted as 54 single-family homes).. According to Continental Homes, currently 152 of the platted 612 single-family home lots have been completed.

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The following chart reflects the status of development as of May 1, 2019:

Section	Acreeage	Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
A. Single Family Developed with Utility Facilities					
Saddlecreek Phase 1A (includes an Amenity Center)	40.46	7	3	2	2
Saddlecreek Phase 1B	13.17	72	51	11	10
Saddlecreek Phase 1C	7.22	30	22	-	8
Saddlecreek Phase 1D	9.82	38	33	-	5
Saddlecreek Phase 1E	6.21	30	28	-	2
Saddlecreek Phase 2A	10.37	51	-	8	43
Saddlecreek Phase 2B	14.16	49	-	-	49
Saddlecreek Phase 2C	7.87	30	-	2	28
Saddlecreek Phase 2D	9.25	30	-	-	30
Saddlecreek Phase 2E	13.97	63	5	3	55
Saddlecreek Phase 3	20.31	75	14	17	44
Saddlecreek Phase 4	16.93	75	-	10	65
Saddlecreek Phase 5	10.57	43	4	5	34
Saddlecreek Phase 6	9.52	52	-	-	52
Saddlecreek Phase 7	24.94	66	1	1	64
<i>Saddlecreek (Total Single Family Developed with Utilities)</i>	214.77	711	161	59	491
Fairhaven Section 1	23.16	81	77	2	2
Fairhaven Section 2	11.86	54	52	1	1
Fairhaven Section 3	5.08	29	11	12	6
Fairhaven Section 4	17.87	34	3	-	31
Fairhaven Section 5	17.14	44	9	28	7
Fairhaven Section 6A	14.69	65	-	-	65
Fairhaven Section 6B	18.33	42	-	-	42
Fairhaven Section 7	19.52	83	-	-	83
Fairhaven Section 8	29.72	126	-	-	126
Fairhaven Section 9	10.90	54	-	-	54
<i>Fairhaven (Total Single Family Developed with Utilities)</i>	168.28	612	152	43	417
Total Single Family Developed with Utilities	383.05	1,323	313	102	908
B. Multi-Family Developed with Utilities					
Saddlecreek Phase 12 (Duplex units)	14.83	146	-	-	146
Total Multi-Family Developed with Utilities	14.83	146	-	-	146
B. Remaining Developable Acreeage	70.84				
C. Undevelopable Acreeage (Drainage Ponds, Easements, and Open Spaces)	54.90				
Total District Acreeage	508.79				

Future Development

The instigation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, the general and other economic conditions which would affect the ability to sell lots and/or property and of any homebuilder to sell completed homes as described in this Official Statement under the caption "RISK FACTORS." If the undeveloped portion of the District is eventually developed, additions to the water, wastewater, and drainage system required to service such undeveloped acreage may be financed by future District bond issues, if any, and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the \$91,625,000 remaining principal amount of voted water, wastewater, and drainage bonds which are authorized to be issued should be sufficient to reimburse the Developer for the existing utility facilities and provide utility service to the remaining undeveloped but potentially developable acres within the District. See "THE BONDS – Issuance of Additional Debt." The Developer is under no obligation to complete any

development, if begun, and may modify or discontinue development plans in their sole discretion. Accordingly, the District makes no representation that future development will occur.

Consent and Development Agreement with the City of Georgetown

The City of Georgetown consented to the creation of the District pursuant to the Consent Agreement executed between the City, the District, Woodhull Family Partners, and Sentinel Land Company on December 8, 2014 (the “Original Consent Agreement”). The Original Consent Agreement was subsequently amended by the First Amended Consent Agreement, entered into on December 18, 2015, by the City, the District, Woodhull Family Partners, and Woodhull Ventures, to reflect the assignment of all Sentinel Land’s rights and obligations under the Original Consent Agreement to Woodhull Ventures in addition to the City’s consent to the annexation of an additional 0.131 acres of land into the boundaries of the District (the “First Amended Consent Agreement”). The Second Amended Consent Agreement dated April 21, 2016, was entered into between the City, the District, Woodhull Family Partners, Woodhull Ventures, and Sentinel Land Company, LLC to reflect the City’s consent to the annexation of the Fairhaven Tract and apply the terms and conditions of the Original Consent Agreement to the Fairhaven Tract (the “Second Amended Consent Agreement”). The Third Amended Consent Agreement was entered into by the City, the District, Woodhull Family Partners, Woodhull Ventures 2015, Sentinel Land Company, and Kasper Family Limited Partnership on June 24, 2016 to clarify that the tax rate limitation for the District is \$0.54 per \$100 of assessed valuation (the “Third Amended Consent Agreement”) (the Original Consent Agreement, First Amended Consent Agreement, Second Amended Consent Agreement, and Third Amended Consent Agreement are collectively referred to herein as the “Consent Agreement”).

The Consent Agreement governs development within the District and set forth the certain terms and conditions governing construction, financing, operation, maintenance, and ownership of the water, sewer, and drainage utilities and transportation facilities serving the property within the District. The Consent Agreement authorizes the District to issue bonds and notes, including bond anticipation notes or refunding unlimited tax bonds for the purposes set forth in the Consent Agreement. The Consent Agreement additionally provides that the total amount of Bonds issued by the District for all purposes shall not exceed \$52,975,000.

THE DEVELOPERS

Role of Developers

In general, the activities of a landowner or developer within a utility district, such as the District, include purchasing land within the future district, petitioning for creation of the district, designing the development, defining a marketing program, planning building schedules, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities) pursuant to the rules of the TCEQ, and selling improved lots or commercial reserves to builders, other developers or first parties. Ordinarily, the Developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility district finances the costs of the water supply and distribution, wastewater collection and drainage facilities. While a landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer’s right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of the developer to perform such activities in development of the property within the utility district may have a profound effect on the security for the bonds issued by a district.

Description of the Developers

The Developers currently active within the District are Woodhull Ventures 2015, LP, a Delaware limited partnership, whose general partner is Sentinel Land Company, LLC, a Texas limited liability company, and Continental Homes of Texas, L.P., a Texas limited partnership and subsidiary of D.R. Horton Inc. Woodhull Ventures has developed or is currently developing utility facilities serving the Saddlecreek development. Continental Homes has developed or is currently developing utility facilities serving the Fairhaven Tract. See “THE DISTRICT – Historical and Current Status of Development.”

For more information concerning the Developers, see “APPENDIX B – Unaudited Financial Statements of the Developers.” Neither the Developers, nor any other person or entity related to or affiliated with the Developers, are responsible for, liable for, or has made any commitment for payment of the Bonds or other obligations of the District or to construct or complete development of the land within the District, and the inclusion of the Developers’ financial statements and description of its financial arrangements or organization herein should not be construed as an implication to that effect. The Developers have no legal commitment to the District or owners of the Bonds to continue development within the District, and may sell or otherwise dispose of their property within the District, or any other assets, at any time. Further, the Developers’ financial condition is subject to change at any time. Because of the foregoing, financial information concerning the Developers will neither be updated nor provided following issuance of the Bonds, except as described herein under “CONTINUING DISCLOSURE OF INFORMATION.”

Description of Woodhull Ventures

Sentinel Land Company, LLC, an affiliate of Woodhull Ventures, is the operating entity of Thomas Reilly (sole member) and David Nairne (Vice-President) for all Austin wide projects having opened an office in 2012. In addition to Saddlecreek, Sentinel manages the development of four other developments in Central Texas including: Oak Creek, a 446 lot single-family project on approximately 151 acres in Leander, Texas

which project is complete and has been sold to builders including Pacesetter, Castle Rock Communities, Megatel, and Meritage Homes; Sorento, which contains a 976 lot single-family element and 310 condo title small lot project on a total of 356 acres in Pflugerville, Texas; and Lively Ranch, a 1,165 lot single-family project on approximately 437 acres in Leander, Texas. Each of the communities was designed as a Master Plan with coordinated development, significant entry statements, extensive open and common spaces including amenity buildings with pools, lounges, workout rooms and related facilities. Mr. Rielly and Mr. Nairne have over 35 years of development experience in various locations in the United States and Canada including California, Arizona, New York, Washington and Texas.

Woodhull Ventures is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District. Woodhull Ventures 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, Woodhull Ventures' financial conditions are subject to change at any time.

Saddlecreek Acquisition and Development Financing

In the 2014, Sentinel Land Company, LLC, purchased a tract of land that comprised the original acreage within the District (approximately 301.507 acres) from Woodhull Family Partners with a revolving line of credit from Gibralt US, Inc. for a commitment of \$5,000,000, maturing on January 15, 2020 (the "Acquisition Loan"). According to Woodhull Ventures, the Acquisition Loan will be paid in full following the issuance of the Bonds. Woodhull Ventures obtained a loan from BCMP Mortgage Investment Corporation for the purpose of developing acreage within the District in the principal amount of \$12,000,000 (the "Development Loan"). According to Woodhull Ventures, the Development Loan has been paid in full and all security has been discharged. In December 2015, the District annexed an additional 0.131 acre tract of land, which was inadvertently omitted from the District's in the Original Consent Agreement.

Homebuilders within Saddlecreek

According to Woodhull Ventures, there are currently seven (7) active homebuilders within the District: CastleRock Communities, Century Communities, Pacesetter Homes, D. R. Horton, Chesmar Homes, Lennar Homes, and Gray Point Homes. According to the Developers, CastleRock Communities' homes range in price from approximately \$219,990 to \$283,990, with square footage ranging from approximately 1,604 to 2,817. According to the Developers, Century Communities' homes range in price from approximately \$213,990 to \$299,990, with square footage ranging from approximately 1,205 to 2,703. According to the Developers, Pacesetter Homes' homes range in price from approximately \$219,900 to \$276,900, with square footage ranging from approximately 1,188 to 2,130. According to the Developers, D. R. Horton's homes range in price from approximately \$218,990 to \$283,990, with square footage ranging from approximately 1,366 to 2,531. According to the Developers, Chesmar Homes' homes range in price from approximately \$302,990 to \$334,170, with square footage ranging from approximately 2,055 to 2,788. According to the Developers, Lennar Homes' homes range in price from approximately \$288,900 to \$344,900, with square footage ranging from 1,622 to 2,970. According to the Developers, Gray Point Homes' homes range in price from approximately \$214,990 to \$259,990, with square footage ranging from approximately 1,300 to 2,420.

Description of Continental Homes

Continental Homes of Texas, L.P. is a Texas limited partnership and operates as a subsidiary of D.R. Horton Inc. D.R. Horton has operations in 84 markets in 29 states across the United States. D.R. Horton's segments include its 44 homebuilding divisions, which includes building and selling single-family detached and attached homes. Certain subsidiaries of D.R. Horton also engage in selling mortgages, conducting insurance-related operations, and constructing and owning rental properties and non-residential real estate.

In addition to the Fairhaven Tract within the District, Continental Homes manages the development of hundreds of other developments in Texas, including several in Central Texas.

Continental Homes is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District. Continental Homes 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, Continental Homes' financial conditions are subject to change at any time.

Fairhaven Tract Acquisition and Development Financing

The Fairhaven Tract, then owned by the Kasper Family Partnership, was annexed into the District in December 2015. Continental Homes purchased the Fairhaven Tract in 2016 from the Kasper Family Partnership with internal cash funding and similarly used internal cash funding to finance the development of utility facilities within the Fairhaven Tract.

Homebuilders within the Fairhaven Tract

According to Continental Homes, D.R. Horton is currently the only homebuilder within the Fairhaven Tract. According to Continental Homes, D.R. Horton's homes range in price from approximately \$218,990 to \$283,990, with square footage ranging from approximately 1,366 to 2,531.

Home construction in the District began in 2017. The following chart illustrates the number of homes built per year starting in 2017.

Calendar Year	No. of Single-Family Homes Constructed
2017	0
2018	104
2019	311*

* As of May 1, 2019; includes 209 completed homes and 102 homes under construction.

Utility Construction Agreements

The District has entered into separate utility construction agreements with Woodhull Ventures 2015 and Continental Homes governing the development of water, wastewater and drainage facilities on land within the District, and the reimbursement for certain costs of such developments through the issuance of bonds by the District. Woodhull Ventures 2015 and Continental Homes also entered into separate road improvements construction and reimbursement agreements and utility and park improvements construction and reimbursement agreements with the District.

Agricultural Waiver

A portion of the undeveloped acreage within the District is subject to an agricultural exemption, however, the Developers have executed agreements, which are recorded in the real property records of Williamson County, and are covenants running with the land, waiving the right to have the land located within the District classified as agricultural, open-space, or timberland. In addition, the Developers have waived the right to have the lots and houses (if any) classified as business inventory. Such agreement may not be modified without the approval of the TCEQ and is binding on purchasers of such land from the Developers. See “TAXING PROCEDURE – Property Subject to Taxation by the District.”

THE SYSTEM

Regulation

The water, wastewater and storm drainage facilities (the "System"), the purchase, acquisition and construction of which will be permanently financed by the District with the proceeds of unlimited tax bonds, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ, Williamson County, and the City of Georgetown. According to the Engineer, the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the waterworks and wastewater facilities serving the District is subject to regulation by, among others, the US Environmental Protection Agency and the TCEQ. The rules and regulations promulgated by these agencies change periodically and are subject to further development and revision. The TCEQ makes annual inspections of the water and wastewater systems to assure compliance with their rules.

Water Supply and Distribution

The District is within the water Certificate of Convenience and Necessity (CCN) of Jonah Water Special Utility District (“Jonah”). Both Developers negotiated separate agreements with Jonah for water service. Jonah has existing facilities in place to deliver water to the District.

Pursuant to the Non-Standard Services Agreement between Jonah and Woodhull Ventures, dated November 12, 2015, Jonah agreed to provide water service to the District in the amount of 341 ESFCs in the Saddlecreek portion of the District. A subsequent Non-Standard Agreement between Jonah and Woodhull Ventures added a commitment for an additional 566 ESFCs of service for a total of 907 ESFCs of water service for the Saddlecreek portion of the District.

Pursuant to the Non-Standard Services Agreement between Jonah and Continental Homes, dated May 15, 2017, Jonah agreed to provide water service to the Fairhaven Tract in the amount of 319 ESFCs. A subsequent Non-Standard Services Agreement was entered into which added a commitment for an additional 416 ESFCs, resulting in a total water service commitment to the Fairhaven Tract.

Jonah owns, operates and maintains the facilities and charges user fees retail rates. Under the agreement, the Developers finance and construct on behalf of the District the internal water facilities and dedicate sites thereunder. The total commitment to the District from Jonah is service for 1,642 LUEs. The Developers have paid for water capital recovery fees on behalf of the District as development progresses in accordance with the Consent and Development Agreements as Amended.

Wastewater Collection and Treatment

The City entered into separate Water Service Agreements with Sentinel Land Company, LLC for the Saddlecreek development and the Fairhaven Tract (the “Water Service Agreements”). Pursuant to the Wastewater Service Agreements, the City provides retail sewer service to the District to serve the ultimate development of the District. The City agrees to own, operate and maintain the facilities and charge users fees at in-city rates. Under the Water Service Agreements, the Developers agree to finance and construct on behalf of the District the internal sewer facilities and dedicate sites thereunder. The District’s wastewater is treated at the City’s Dove Spring Wastewater Treatment Plant (TPDES

Permit No. WQ0010489003). Pursuant to the Consent Agreement and the Wastewater Service Agreements, the Developers constructed the offsite wastewater lines and lift stations required to connect to the District's wastewater system to the City's system. These facilities were required to be oversized to accommodate future growth in the City's service area. In consideration for construction of the facilities, the City has agreed to credit the portion of its wastewater impact fee related to the improvements. Therefore, only the treatment capacity portion of the wastewater impact fees are paid to the City.

Storm Drainage

The storm drainage system that serves the District consists of curb and guttered streets and storm sewers. The collected storm water runoff generally flows through the District from the north to the south, and ultimately outfalls into the South San Gabriel River on the District's southern boundary.

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance.

According to the District's Engineer, none of the acres within the District are located within the 100-year flood plain, as identified by the Federal Flood Insurance Administration Rate Maps Nos. 48491C0275E and 48491C0460E for Williamson County, Texas, dated September 26, 2008.

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

Water, Wastewater and Drainage Operations - Rate and Fee Schedule

Jonah provides retail water services to the District and is responsible for establishing the rates and fees charged for those services, subject to change from time to time. The City provides retail wastewater services to the District and is responsible for establishing the rates and fees charged for those services, subject to change from time to time. The rates and fees charged by Jonah and the City for retail water and wastewater service are published and updated from time to time by those entities on their official websites, which may be referred to for Jonah's and the City's current rates and fees. The rates and charges established by Jonah and the City are not part of the District's continuing disclosure undertaking and will not be updated by the District annually.

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Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District as derived from the District’s audited financial statement for the year ending September 30, 2018 and an unaudited summary for the year ending September 30, 2018. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District's financial statements and records. Reference is made to such statements for further and more complete information. Also see “Appendix A – Audited Financial Statements.”

	Fiscal Year End	
	05/31/2019^(a)	9/30/2018^(b)
REVENUES		
Property taxes, including penalties and interest	\$ 133,335	\$ 216,310
Other	<u>16,502</u>	<u>-</u>
TOTAL REVENUES	\$ 149,837	\$ 216,310
EXPENDITURES		
Director Fees, including payroll	\$ 1,929	\$ 3,230
Tax Appraisal/Collection Fees	454	563
Legal Fees	3,602	-
Bookkeeping Fees	3,050	4,600
Engineering Fees	21,900	35,528
Financial Advisor Fees	1,540	1,540
Audit	7,000	6,500
Insurance	347	1,454
Other	<u>212</u>	<u>239</u>
TOTAL EXPENDITURES	\$ 40,033	\$ 53,654
NET REVENUES (DEFICIT)	\$ 109,804	\$ 162,656
Beginning Fund Balance	\$ 180,026	\$ 2,370
Developer Advance	-	15,000
Plus / (Less): Fund Transfers	-	-
Ending Fund Balance	\$ 289,830	\$ 180,026

(a) Unaudited as of May 31, 2019. Represents eight (8) months of the District's 2018 fiscal year.

(b) Audited.

DEBT SERVICE REQUIREMENTS – TABLE 3

**Southeast Williamson County Municipal Utility District No. 2
\$5,925,000**

Unlimited Tax Bonds, Series 2019

Dated Date: August 14, 2019

First Interest Payment Due: March 1, 2020

Year Ending 31-Dec	The Bonds				Principal and Interest	Total Debt Service Requirements
	Principal (Due 9/01)	Interest				
		(Due 3/01)	(Due 9/01)	Total		
2020	\$ -	\$ 87,569	\$ 80,013	\$ 167,582	\$ 167,582	\$ 167,582
2021	-	80,013	80,013	160,025	160,025	160,025
2022	60,000	80,013	80,013	160,025	220,025	220,025
2023	180,000	79,413	79,413	158,825	338,825	338,825
2024	185,000	77,613	77,613	155,225	340,225	340,225
2025	195,000	75,763	75,763	151,525	346,525	346,525
2026	200,000	73,813	73,813	147,625	347,625	347,625
2027	210,000	71,813	71,813	143,625	353,625	353,625
2028	220,000	69,713	69,713	139,425	359,425	359,425
2029	230,000	67,375	67,375	134,750	364,750	364,750
2030	240,000	64,788	64,788	129,575	369,575	369,575
2031	250,000	61,788	61,788	123,575	373,575	373,575
2032	260,000	58,663	58,663	117,325	377,325	377,325
2033	270,000	55,088	55,088	110,175	380,175	380,175
2034	280,000	51,375	51,375	102,750	382,750	382,750
2035	295,000	47,175	47,175	94,350	389,350	389,350
2036	305,000	42,750	42,750	85,500	390,500	390,500
2037	320,000	38,175	38,175	76,350	396,350	396,350
2038	335,000	33,375	33,375	66,750	401,750	401,750
2039	350,000	28,350	28,350	56,700	406,700	406,700
2040	360,000	23,100	23,100	46,200	406,200	406,200
2041	375,000	17,700	17,700	35,400	410,400	410,400
2042	395,000	12,075	12,075	24,150	419,150	419,150
2043	410,000	6,150	6,150	12,300	422,300	422,300
	<u>\$ 5,925,000</u>	<u>\$ 1,303,644</u>	<u>\$ 1,296,088</u>	<u>\$ 2,599,732</u>	<u>\$ 8,524,732</u>	<u>\$ 8,524,732</u>

**FINANCIAL STATEMENT
(Unaudited)**

Assessed Value – Table 4

2018 Certified Assessed Valuation	\$	24,524,108	(a)
2019 Certified Assessed Valuation	\$	86,406,944	(b)
Estimated Assessed Valuation as of May 1, 2019	\$	135,200,000	(c)
Gross Debt Outstanding (after issuance of the Bonds)	\$	5,925,000	(d)
Ratio of Gross Debt to 2018 Certified Assessed Valuation ^(a)		24.16%	
Ratio of Gross Debt to 2019 Certified Assessed Valuation ^(b)		6.86%	
Ratio of Gross Debt to Estimated Assessed Valuation as of May 1, 2019 ^(c)		4.38%	
 2018 Tax Rate			
Debt Service	\$	-	
Maintenance		0.5400	
Total 2018 Tax Rate		0.5400	(e)
Debt Service Fund Balance (after the issuance of the Bonds)	\$	356,540	(f)

Area of District: 508.7850 acres
Estimated Population as of May 1, 2019: 1,069 ^(g)

- (a) The certified assessed valuation as of January 1, 2018, as provided by WCAD. See "TAXING PROCEDURES."
 (b) The certified assessed valuation as of January 1, 2019. See "TAXING PROCEDURES."
 (c) The estimated assessed valuation as of May 1, 2019, as provided by WCAD, is included solely for purposes of illustration. No taxes will be levied on this assessed valuation unless it is certified by WCAD. See "TAXING PROCEDURES."
 (d) Includes the Bonds.
 (e) The District's Board, at its meeting in September 2018, levied maintenance tax only for a 2018 total tax rate of \$0.5400. The District anticipates levying a 2019 total tax rate of \$0.5400, including a \$0.1850 debt service tax and \$0.3550 maintenance tax in August 2019. See "TAXING PROCEDURES."
 (f) Represents approximately twenty-four (24) months of capitalized interest (\$356,540) included in the Bond proceeds, to be deposited into the Debt Service Fund upon closing. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.
 (g) Based upon 3.5 residents per completed and occupied single family home.

Unlimited Tax Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
5/7/2016	Water, Wastewater and Drainage	\$ 97,550,000	\$ 5,925,000 ^(a)	\$ 91,625,000
5/7/2016	Recreational Facilities	22,130,000	-	22,130,000
5/7/2016	Road Facilities	24,335,000	-	24,335,000
5/7/2016	Refunding	216,022,500	-	216,022,500
Total		\$ 360,037,500	\$ 5,925,000	\$ 354,112,500

(a) Includes the Bonds.

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Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds
08/14/19	Water, Wastewater and Drainage	2019	5,925,000	5,925,000 ^(a)
	Subtotal		<u>\$ 5,925,000</u>	<u>\$ 5,925,000</u>

(a) The Bonds.

Cash and Investment Balances - Table 7^(a)

General Fund	\$ 260,532
Debt Service Fund	356,540 ^(b)
Capital Projects Fund	-

(a) Unaudited as of May 21, 2019.

(b) Represents approximately twenty-four (24) months of capitalized interest (\$356,540) included in the Bond proceeds, to be deposited into the Debt Service Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that complies with Securities and Exchange Commission Rule 2a-7; (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations described in this paragraph, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations

described in clauses (1) through (6) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a first party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

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

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

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

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments - Table 8

The District, as of May 21, 2019, was invested in TexPool. This investment portfolio is generally representative of the District's investment practices. GASB Statement No. 3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

Investment Value as of May 21, 2019	
Cash	\$ 80,733
TexPool	179,800
Total Investments	\$ 260,532

Estimated Overlapping Debt Statement

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

Taxing Body	Total Tax Supported Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Williamson County	\$ 826,249,942	6/30/2019	0.012%	\$ 95,984
Williamson Co. FM and Road ^(a)	-	6/30/2019	0.071%	-
City of Georgetown	230,005,000	6/30/2019	0.094%	216,688.42
Georgetown ISD	426,935,000	6/30/2019	0.000%	-
TOTAL ESTIMATED OVERLAPPING NET DEBT				\$ 312,673
The District ^(b)	\$ 5,925,000	8/14/2019	100.00%	\$ 5,925,000
TOTAL DIRECT AND ESTIMATED OVERLAPPING DEBT				\$ 6,237,673
Ratio of Estimated and Overlapping Debt to 2018 Certified Assessed Valuation				25.43%
Ratio of Estimated and Overlapping Debt to 2019 Certified Assessed Valuation				7.22%
Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of May 1, 2019				4.61%

(a) Taxing jurisdiction with no outstanding debt.

(b) Includes the Bonds.

Overlapping Taxes for 2018

Overlapping Entity	2018 Tax Rate Per	
	\$100 Assessed Valuation Williamson County	Average Tax Bill ^(a) Williamson County
Williamson County	\$0.419029	\$ 1,152
City of Georgetown	\$0.420000	1,155
Georgetown ISD	1.409000	3,875
Williamson Co. FM and Road	0.040000	110
The District	0.540000	1,485
Total	<u>\$2.828029</u>	<u>\$ 7,777</u>

(a) Based upon the 2018 average single-family home value of \$274,995 as provided by the Developers.

TAX DATA

Classification of Assessed Valuation - Table 9

Type Property	2019 ^(a)		2018 ^(b)		2017 ^(b)	
	Amount	%	Amount	%	Amount	%
Single Family Residential	\$ 25,606,825	13.19%	\$ -	0.00%	\$ -	0.00%
Vacant Platted Lots/Tracts	1,204,518	0.62%	11,511	0.05%	-	0.00%
Real, Acreage (Land Only)	2,950,383	1.52%	4,364,554	17.80%	16,397,711	124.91%
Real, Farm and Ranch Improve	4,723,754	2.43%	11,042,037	45.03%	142,534	1.09%
Qualified Open Space Land	-	0.00%	-	0.00%	-	0.00%
Rural Land, Non-Qualified	-	0.00%	-	0.00%	-	0.00%
Commercial Personal Property	-	0.00%	-	0.00%	-	0.00%
Real & Intangible Per. Utilities	-	0.00%	-	0.00%	-	0.00%
Intangible Personal Property	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Business	112,067	0.06%	47,142	0.19%	-	0.00%
Residential Inventory	62,484,378	32.18%	13,641,292	55.62%	-	0.00%
Totally Exempt Property	97,081,925	50.00%	-	0.00%	-	0.00%
Adjustments & Exemptions	-	0.00%	(4,582,428)	-18.69%	(3,413,024)	-26.00%
Total	\$194,163,850	100.00%	\$ 24,524,108	100.00%	\$ 13,127,221	100.00%

(a) Audited.

Tax Collections - Table 10

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

Year	Assessed Valuation ^(a)	Tax Rate	Tax Levy	Current		Total		Year Ending
				Amount	%	Amount	%	
2016	2,404,930	0.5400	12,986	12,986	100.00%	12,986	100.00%	9/30/2017 ^(b)
2017	13,127,221	0.5400	70,887	70,887	100.00%	70,887	100.00%	9/30/2018 ^(b)
2018	24,524,108	0.5400	133,529	132,291	99.07%	132,291	99.07%	9/30/2019 ^(c)

(a) Assessed valuation provided by WCAD.

(b) Audited.

(c) Reflects collections as of March 31, 2019. Taxes were due with no penalty by January 31, 2019.

District Tax Rates - Table 11

	Tax Rates per \$100 Assessed Valuation		
	2018	2017	2016
Debt Service	\$ -	\$ -	\$ -
Maintenance	0.5400	0.5400	0.5400
Total	\$ 0.5400	\$ 0.5400	\$ 0.5400

Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate and amount. The District's tax rate for maintenance of the District's improvements is limited to \$1.00 per \$100 assessed valuation. Pursuant to the District's Third Amended Consent Agreement, the District's tax rate for maintenance of the District's improvements is limited to \$0.5400 per \$100 assessed valuation. See "THE DISTRICT – Consent and Development Agreement with the City of Georgetown."

The Board will covenant 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 which, when added to other funds legally available to the District for payment of outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on such debt.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes that the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. At an election held on May 7, 2016, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. Pursuant to the District's Third Amended Consent Agreement, the District's tax rate for maintenance of the District's improvements is limited to \$0.5400 per \$100 assessed valuation. See "THE DISTRICT – Consent and Development Agreement with the City of Georgetown." As shown above under "District Tax Rates," the District levied a 2018 maintenance and operation tax of \$0.5400/\$100 assessed valuation. See "THE DISTRICT – General."

Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by WCAD based on the 2019, 2018 and 2017 tax rolls of the District, which reflect ownership as of January 1 of each year shown.

Name	Type of Property	2019 ^(a)	2018 ^(b)	2017 ^(b)
Continental Homes of Texas LP	Land & Improvements	\$ 17,683,514	\$ 7,469,399	\$ 2,901,064
Pacesetter Homes LLC	Land & Improvements	6,021,026	4,623,245	1,317,400
Lennar Homes of Texas Land & Construction Ltd.	Land & Improvements	3,518,550	(c)	(c)
Castlerock Communities LP	Land & Improvements	3,096,324	(c)	(c)
Gehan Homes Ltd	Land & Improvements	1,881,536	(c)	(c)
Woodhull Family Partners	Land & Improvements	-	3,444,915	4,870,248
Century Land Holdings II LLC	Land & Improvements	7,435,438	2,971,446	(c)
Woodhull Ventures 2015 LP	Land & Improvements	-	2,532,160	4,015,100
Chesmar Homes Austin Ltd.	Land & Improvements	2,607,633	1,280,790	(c)
Affinity Development Company LLC	Land & Improvements	-	214,391	(c)
Individual Homeowner	Land & Improvements	-	227,390	(c)
Individual Homeowner	Land & Improvements	-	193,146	(c)
Kasper Family Ltd. Partnership	Land & Improvements	-	(c)	12,676
Woodhull Family Partners Et. Al.	Land & Improvements	-	(c)	10,733
Total		<u>\$ 42,244,021</u>	<u>\$ 22,956,882</u>	<u>\$ 13,127,221</u>
Percent of Assessed Valuation		48.89%	92.91%	100.00%

(a) Provided by WCAD.

(b) Audited

(c) Not a principal taxpayer in respective year.

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2018 certified assessed valuation, 2019 certified assessed valuation, estimated assessed valuation as of May 1, 2019, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments - *Impact on District Tax Rates.*"

Average Annual Debt Service Requirement on the Bonds (2022 through 2043).....	\$372,597
\$1.60 Tax Rate on 2018 Certified Assessed Valuation of \$24,6524,108 @ 95% collections produces.....	\$372,766
\$0.46 Tax Rate on 2019 Certified Assessed Valuation of \$86,406,944 @ 95% collections produces.....	\$377,598

\$0.30 Tax Rate on the Estimated Assessed Valuation as of May 1, 2019 of \$135,200,000 @ 95% collections produces.....	\$385,320
Maximum Annual Debt Service Requirement on the Bonds (2039).....	\$422,300
\$1.82 Tax Rate on 2018 Certified Assessed Valuation of \$24,524,108 @ 95% collections produces.....	\$424,022
\$0.52 Tax Rate on 2019 Certified Assessed Valuation of \$86,406,944 @ 95% collections produces.....	\$426,850
\$0.33 Tax Rate on the Estimated Assessed Valuation as of May 1, 2019 of \$135,200,000 @ 95% collections produces.....	\$423,852

Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/19.....	\$167,582 ^(a)
Audited Debt Service Fund Balance as of 09/30/18.....	0 ^(b)
Capitalized Interest included in Bond proceeds.....	356,540 ^(c)
2018 Tax Levy @ 95% collections produces.....	0 ^(d)
Total Available for Debt Service.....	<u>\$356,540</u>
Projected Debt Service Fund Balance as of September 30, 2019.....	\$188,958

- (a) Interest requirements on the Bonds begin March 1, 2020.
- (b) Audited as of September 30, 2018.
- (c) Represents approximately twenty-four (24) months of capitalized interest (\$356,540) included in the Bond proceeds, to be deposited into the Debt Service Fund upon closing.
- (d) The District did not levy a 2018 debt service tax rate, but anticipates levying a 2019 total tax rate of \$0.5400, including a \$0.1850 debt service tax and \$0.3550 maintenance tax in August 2019. See “TAXING PROCEDURES.”

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, its other remaining outstanding bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of and Security for Payment.” Under Texas law, the Board is also authorized to levy and collect an 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 its voters. See “TAX DATA – Tax Rate Limitation.”

Property Tax Code and County Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. WCAD has the responsibility for appraising property for all taxing units within Williamson County, including the District. Such appraisal values are subject to review and change by the Williamson County Appraisal Review Board (the “Appraisal Review Board”).

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of person sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to

pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but it must be adopted by July 1. The District has never adopted a general homestead exemption.

Tax Abatement: Williamson County and the District may enter into tax abatement agreements with owners of real property. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

Freeport Goods and Goods-in-Transit Exemption: Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only is such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. The District has acted to tax goods-in-transit.

Valuation of Property for Taxation

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

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires WCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in WCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by WCAD or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from WCAD 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 WCAD chooses formally to include such values on its appraisal roll.

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

Under current law, the qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent (8%). If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed are classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its operation and maintenance tax rate pursuant to SB 2 is described for each classification below.

Low Tax Rate Districts: Low Tax Rate Districts that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold a rollback election within the district to determine whether to

approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Low Tax Rate District is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

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

Developing Districts: Districts that do not meet the classification of a Low Rate Tax District or a Developed District are 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 a rollback 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 Low Tax Rate District, Developed District, or Developing District will be made by the Board of Directors on an annual basis, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights In The Event Of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2018". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "RISK FACTORS - General - Tax Collections and Foreclosure Remedies."

Effect of FIRREA on Tax Collections

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

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

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

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

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

No-Litigation Certificate

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

No Material Adverse Change

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

TAX MATTERS

Opinion

On the Date of Initial Delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law") (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX C -- Form of Bond Counsel Opinion."

In rendering its opinion, Bond Counsel will rely upon (a) the District's federal tax certificate, and (b) covenants of the District relating to arbitrage and the application of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become included in gross income retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). The difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. As of the date hereof, legislation has been introduced in the United States Congress that, if enacted, would make significant changes to the Code, including, among other provisions, changes to the federal income tax rates for individuals and corporations. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligation, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events to the Municipal Securities Rulemaking Board ("MSRB"). Information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 2 through 12 and in Appendix A, if such audited financial statements as provided in Appendix A are then available. The District will update and provide this information within six months after the end of the fiscal year. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if and when audited financial statements become available. If audited financial statements are not available within twelve months after any such fiscal year end, the District will file unaudited financial statements within such twelve-month period and file audited financial statements when the audit report become available. In addition, the District has agreed to provide information with respect to the Developers. The District will be obligated to provide information concerning the Developers only if and so long as (1) such persons 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) or any preliminary or estimated assessed valuation provided by WCAD, (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 the amount which exceeds 20% of the amount of the District's bonds then outstanding. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of 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 obligated person, any of which affect security holders, if material ("Financial Obligation means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.); and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Bond Order make any provision for debt service reserve or a trustee.

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

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

Limitations and Amendments

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter or purchaser from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The Bonds represent the initial installment of bonds issued by the District, therefore the District has not had to comply with any continuing disclosure undertaking pursuant to SEC Rule 15c2-12.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Public Finance Group LLC (the "Financial Advisor"), which firm was employed in 2015 as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

OFFICIAL STATEMENT

Preparation

The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See "THE DISTRICT." The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT" and "THE SYSTEM" – Jones-Heroy & Associates, Inc. ("District Engineer"); "THE DEVELOPERS" – Woodhull Ventures 2015 LP, Continental Homes of Texas, L.P., et. al.; "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District, "FINANCIAL STATEMENT" – Tax Appraisal District of Williamson County; "FINANCIAL STATEMENT - Estimated Overlapping Debt Statement" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water and Wastewater Operations" - Records; "THE DISTRICT - Management of the District" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS" (except "Payment Record"), "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except "Compliance with Prior Undertakings") - McCall, Parkhurst & Horton L.L.P.

Consultants

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

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

Auditor: The District's financial statements for fiscal year ending September 30, 2018 were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of September 30, 2018 have been included as Appendix A in reliance upon such firm's authority in the field of accounting.

Updating the Official Statement during Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide and Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the “end of the underwriting period” (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the “end of the underwriting period”), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described in the Notice of Sale under the heading "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - Delivery." The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the “end of the underwriting period” within the meaning of the Rule), unless the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in “CONTINUING DISCLOSURE OF INFORMATION” herein, the District has no obligation to disclose any changes in the affairs of the District and other matters described in this Official Statement subsequent to the “end of the underwriting period” which shall end when the District delivers the Bonds to the Initial Purchaser at closing, unless extended by the Initial Purchaser. All information with respect to the resale of the Bonds subsequent to the “end of the underwriting period” is the responsibility of the Initial Purchaser.

Annual Audits

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

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

/s/Chris Zigrossi
President, Board of Directors
Southeast Williamson County Municipal Utility District No. 1

/s/Patrick B. Oliver
Secretary, Board of Directors
Southeast Williamson County Municipal Utility District No. 1

PHOTOGRAPHS

The following photographs were taken in the District in May 2019. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."



















APPENDIX A
Audited Financial Statements

The information contained in this appendix has been excerpted from the audited financial statements of Southeast Williamson County Municipal Utility District No. 1 for the fiscal year ended September 30, 2018. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**SOUTHEAST WILLIAMSON COUNTY
MUNICIPAL UTILITY DISTRICT NO. 1**

YEAR ENDED SEPTEMBER 30, 2018

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

**SOUTHEAST WILLIAMSON COUNTY
MUNICIPAL UTILITY DISTRICT NO. 1**

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

**FOR THE YEAR ENDED
SEPTEMBER 30, 2018**

**SOUTHEAST WILLIAMSON COUNTY
MUNICIPAL UTILITY DISTRICT NO. 1**

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ANNUAL FILING AFFIDAVIT

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS
COUNTY OF WILLIAMSON

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

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
(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 **18th day of January, 2019**, its annual audit report for the fiscal year ended **September 30, 2018** and that copies of the annual audit report have been filed in the District's office, located at:

100 Congress Ave., Suite 1300
Austin, Texas 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 the annual filing requirements of Texas Water Code Section 49.194.

Date: _____, _____ By: _____
(Signature of 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

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
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
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Board of Directors
Southeast Williamson County
Municipal Utility District No. 1
Williamson County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and major fund of Southeast Williamson County Municipal Utility District No. 1 (the "District"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the District as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Austin, Texas

January 18, 2019

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

In accordance with Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), the management of Southeast Williamson County Municipal Utility District No. 1 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2018. 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 \$180,026, an increase of \$177,656 from the previous fiscal year. General Fund revenues and other financing sources included \$83,560 of property taxes, drainage fees of \$132,750 and an advance from the developer of \$15,000.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$149,988 in the current fiscal year. Net position increased from a deficit balance of \$46,262 at September 30, 2017 to a positive balance of \$103,726 at September 30, 2018.

OVERVIEW OF THE DISTRICT

The District was duly created by order of the Texas Commission on Environmental Quality (the "Commission") dated July 13, 2015 as a conservation and reclamation district created under and essential to accomplish the purposes of Section 59, Article XVI of the Texas Constitution.

The District is located on 301.5 acres within the corporate limits of the City of Georgetown, Texas, in Williamson County, west of State Highway 130 and east of the Southeast Inner Loop.

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

USING THIS ANNUAL REPORT

This annual report consists of the following parts:

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

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "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 and its actual results.

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

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
	2018	2017	(Decrease)
Current and other assets	\$ 187,349	\$ 21,640	\$ 165,709
Capital and non-current assets	-	-	-
Total Assets	\$ 187,349	\$ 21,640	\$ 165,709
Current liabilities	\$ 7,323	\$ 6,602	\$ 721
Long-term liabilities	76,300	61,300	15,000
Total Liabilities	\$ 83,623	\$ 67,902	\$ 15,721
Unrestricted	\$ 103,726	\$ (46,262)	\$ 149,988
Total Net Position	\$ 103,726	\$ (46,262)	\$ 149,988

The District's net position increased by \$149,988 during the 2018 fiscal year to a positive balance of \$103,726 at September 30, 2018 from the previous year's deficit balance of \$46,262.

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Revenues and Expenses:

	<u>Summary Statement of Activities</u>		Change Increase (Decrease)
	Governmental Activities		
	2018	2017	
Property taxes	\$ 70,892	\$ 12,986	\$ 57,906
Drainage fees	132,750	-	132,750
Total Revenues	<u>\$ 203,642</u>	<u>\$ 12,986</u>	<u>\$ 190,656</u>
Professional fees	\$ 48,168	\$ 27,914	\$ 20,254
Other	5,486	3,849	1,637
Total Expenses	<u>\$ 53,654</u>	<u>\$ 31,763</u>	<u>\$ 21,891</u>
Change in Net Position	\$ 149,988	\$ (18,777)	\$ 168,765
Beginning Net Position	(46,262)	(27,485)	(18,777)
Ending Net Position	<u><u>\$ 103,726</u></u>	<u><u>\$ (46,262)</u></u>	<u><u>\$ 149,988</u></u>

Revenues were \$203,642 for the fiscal year ended September 30, 2018 while expenses were \$53,654. Net position increased \$149,988 during the 2018 fiscal year.

For the fiscal year ended September 30, 2018, property tax revenues totaled \$70,892. 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 2017 tax year (September 30, 2018 fiscal year) were based upon a current assessed value of \$13,127,221 and a tax rate of \$0.54 per \$100 of assessed valuation. Property taxes levied for the 2016 tax year (September 30, 2017 fiscal year) were based upon a current assessed value of \$2,404,930 and a tax rate of \$0.54 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 Fund debt service obligations of the District, if any. The District's primary revenue sources are property taxes and drainage fees.

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

ANALYSIS OF GOVERNMENTAL FUND

	<u>Governmental Fund by Year</u>	
	2018	2017
Cash on deposit	\$ 50,485	\$ 4,511
Receivables	136,431	17,129
Prepaid expenses	433	-
Total Assets	<u>\$ 187,349</u>	<u>\$ 21,640</u>
Accounts payable	\$ 7,323	\$ 6,602
Total Liabilities	<u>\$ 7,323</u>	<u>\$ 6,602</u>
Deferred Inflows of Resources	\$ -	\$ 12,668
Nonspendable	\$ 433	\$ 780
Unassigned	179,593	1,590
Total Fund Balance	<u>\$ 180,026</u>	<u>\$ 2,370</u>
Total Liabilities and Fund Balance	<u>\$ 187,349</u>	<u>\$ 21,640</u>

As of September 30, 2018, the District's governmental fund reflected a fund balance of \$180,026, an increase of \$177,656 compared to September 30, 2017.

BUDGETARY HIGHLIGHTS

The General Fund pays for daily operating expenditures. The Board of Directors adopted the 2018 budget on September 8, 2017. The budget included revenues of \$89,317 as compared to expenditures of \$68,570 for the 2018 fiscal year. When comparing actual figures to budgeted amounts, the District had a positive net variance of \$156,909. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The property tax assessed value for 2018 is approximately \$24.5 million. The fiscal year 2019 tax rate (2018 tax rate) is \$0.54 on each \$100 of taxable value. All of the property tax collected during fiscal year 2019 will fund general operating expenses.

The adopted budget for fiscal year 2019 projects an increase of \$84,505 to the operating fund balance. Compared to the fiscal year 2018 budget, revenues are expected to increase by approximately \$89,000 and expenditures are expected to increase by approximately \$25,000.

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

REQUESTS FOR INFORMATION

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

FINANCIAL STATEMENTS

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2018

	<u>General Fund</u>	<u>Adjustments Note 2</u>	<u>Government - Wide Statement of Net Position</u>
<u>ASSETS</u>			
Cash on deposit	\$ 50,485	\$ -	\$ 50,485
Receivables -			
Due from Builder	136,431	-	136,431
Prepaid costs	433	-	433
TOTAL ASSETS	<u>\$ 187,349</u>	<u>\$ -</u>	<u>\$ 187,349</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 7,323	-	7,323
Long-term liabilities-			
Due to developer	-	76,300	76,300
TOTAL LIABILITIES	<u>7,323</u>	<u>76,300</u>	<u>83,623</u>
<u>FUND BALANCE / NET POSITION</u>			
Fund balance:			
Nonspendable	433	(433)	-
Unassigned	179,593	(179,593)	-
TOTAL FUND BALANCE	<u>180,026</u>	<u>(180,026)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 187,349</u>		
NET POSITION -			
Unrestricted		<u>\$ 103,726</u>	<u>\$ 103,726</u>
TOTAL NET POSITION		<u>\$ 103,726</u>	<u>\$ 103,726</u>

The accompanying notes are an integral part of this statement.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2018

	<u>General Fund</u>	<u>Adjustments Note 2</u>	<u>Government - Wide Statement of Activities</u>
<u>REVENUES:</u>			
Property taxes, including penalties	\$ 83,560	\$ (12,668)	\$ 70,892
Drainage fees	132,750	-	132,750
TOTAL REVENUES	<u>216,310</u>	<u>(12,668)</u>	<u>203,642</u>
<u>EXPENDITURES / EXPENSES:</u>			
Engineering fees	35,528	-	35,528
Bookkeeping fees	4,600	-	4,600
Audit fees	6,500	-	6,500
Director fees, including payroll taxes	3,230	-	3,230
Insurance	1,454	-	1,454
Financial advisor fees	1,540	-	1,540
Tax appraisal/collection fees	563	-	563
Other	239	-	239
TOTAL EXPENDITURES / EXPENSES	<u>53,654</u>	<u>-</u>	<u>53,654</u>
Excess of revenues over expenditures/expenses	<u>162,656</u>	<u>(12,668)</u>	<u>149,988</u>
OTHER FINANCING SOURCES			
Developer advances	<u>15,000</u>	<u>(15,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>15,000</u>	<u>(15,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	177,656	(177,656)	-
CHANGE IN NET POSITION		149,988	149,988
<u>FUND BALANCE / NET POSITION:</u>			
Beginning of the year	<u>2,370</u>	<u>(48,632)</u>	<u>(46,262)</u>
End of the year	<u>\$ 180,026</u>	<u>\$ (76,300)</u>	<u>\$ 103,726</u>

The accompanying notes are an integral part of this statement.

**NOTES TO THE
FINANCIAL STATEMENTS**

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Southeast Williamson County Municipal Utility District No. 1 (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 was duly created by order of the Texas Commission on Environmental Quality (the “Commission”) dated July 13, 2015 as a conservation and reclamation district created under and essentially to accomplish the purposes of Section 59, Article XVI of the Texas Constitution. The reporting entity of the District encompasses those activities and functions over which the District’s elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the “Board”) which has been 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 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 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 capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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 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 schedule is presented that compares the adopted General Fund budget with actual results.

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

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

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.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Basis of Accounting

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

Fund Financial Statements - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using 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 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, if any, which is recognized when due. This exception is in conformity with generally accepted accounting principles.

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

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

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Budgets and Budgetary Accounting - An unappropriated budget was adopted on September 8, 2017, 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.

Pensions - The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes.

Cash - Cash includes cash on deposit.

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.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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	\$ 180,026
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund - Developer advances	(76,300)
Net Position - Governmental Activities	\$ 103,726

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	\$ 177,656
Amounts reported for governmental activities in the Statement of Activities are different because- Governmental fund reports - Tax revenue in year collected	(12,668)
Developer advances in year received	(15,000)
Change in Net Position - Governmental Activities	\$ 149,988

3. CASH

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, 2018, the carrying amount District's deposits was \$50,485 and the bank balance was \$51,739. The bank balance was covered by FDIC insurance.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Williamson Central Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Assessor Collector bills and collects the District's property taxes. The Board set tax rates for the 2017 tax year on September 8, 2017.

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 2017 tax roll. The tax rate, based on the total taxable assessed valuation of \$13,127,221 was \$0.54 on each \$100 valuation and was allocated to the General Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters on November 3, 2015.

Property taxes were fully collected at September 30, 2018.

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

5. COMMITMENTS AND CONTINGENCIES

The Developer of the land within the District has 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 District bond issues, subject to approval by the Commission, or from operations. On May 7, 2016, a bond election held within the District approved authorization to issue \$97,550,000 of bonds to fund costs of proposed works, improvements, facilities, plants, equipment, appliances and non-construction costs based upon the District's engineer's report. Additionally, \$22,130,000 of bonds to fund costs for parks and recreational facilities and \$24,335,000 to fund road improvements were approved by voters of the District. As of September 30, 2018, the District has not issued any bonds and has received \$76,300 of developer advances used to fund District operations.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

6. RISK MANAGEMENT

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

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

7. ECONOMIC DEPENDENCY

From inception, the District has been dependent upon the Developer for operating advances. The Developer continues to own a substantial portion of the taxable property within the District. The Developer’s willingness to make advances in future years will directly affect the District’s ability to meet future obligations. During the current fiscal year, the Developer advanced the District \$15,000 to fund operations. Advances from inception total \$76,300. These advances, plus interest, are subject to reimbursement from future bond issues in accordance with the rules of the Commission.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SEPTEMBER 30, 2018

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance Positive (Negative)</u>
REVENUES:			
Property taxes, including penalties	\$ 83,560	\$ 89,317	\$ (5,757)
Drainage fees	132,750	-	132,750
TOTAL REVENUES	<u>216,310</u>	<u>89,317</u>	<u>126,993</u>
EXPENDITURES:			
Legal fees	-	30,000	30,000
Engineering fees	35,528	24,000	(11,528)
Bookkeeping fees	4,600	7,100	2,500
Audit fees	6,500	-	(6,500)
Director fees, including payroll taxes	3,230	4,860	1,630
Insurance	1,454	1,200	(254)
Financial advisor fees	1,540	-	(1,540)
Tax appraisal/collection fees	563	690	127
Other	239	720	481
TOTAL EXPENDITURES	<u>53,654</u>	<u>68,570</u>	<u>14,916</u>
Excess of revenues over expenditures	<u>162,656</u>	<u>20,747</u>	<u>141,909</u>
OTHER FINANCING SOURCES -			
Developer advances	15,000	-	15,000
TOTAL OTHER FINANCING SOURCES	<u>15,000</u>	<u>-</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCE	177,656	<u>\$ 20,747</u>	<u>\$ 156,909</u>
FUND BALANCE:			
Beginning of the year	<u>2,370</u>		
End of the year	<u>\$ 180,026</u>		

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**TEXAS SUPPLEMENTARY
INFORMATION**

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SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-1. SERVICES AND RATES
SEPTEMBER 30, 2018

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):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
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:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
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 service to be provided by Jonah Special Utility District and wastewater service to be provided by City of Georgetown, Texas.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-1. SERVICES AND RATES (continued)
SEPTEMBER 30, 2018

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

Gallons pumped into system: _____ (1)
Gallons billed to customers: _____ (1)

<u>Water Accountability Ratio</u> (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: _____ Williamson 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 extraterritorial jurisdiction (ETJ)?

Entirely Partly Not at all

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

Are Board members appointed by an office outside the district?

Yes No

If Yes, by whom? _____

(1) Water service to be provided by Jonah Special Utility District and wastewater service to be provided by City of Georgetown, Texas.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-2. GENERAL FUND EXPENDITURES
SEPTEMBER 30, 2018

Personnel Expenditures (including benefits)	\$	-
Professional Fees:		
Auditing		6,500
Legal		-
Engineering		35,528
Financial Advisor		1,540
Purchased Services For Resale-		
Bulk Water and Wastewater Purchases		-
Contracted Services:		
Bookkeeping		4,600
General Manager		-
Appraisal District/Tax Collector		563
Other Contracted Services		-
Utilities		
		-
Repairs and Maintenance		
		-
Chemicals		
		-
Administrative Expenditures:		
Directors' Fees		3,230
Office Supplies		-
Insurance		1,454
Other Administrative Expenditures		239
Capital Outlay:		
Capitalized Assets		-
Expenditures not Capitalized		-
Bad Debt		
		-
Parks and Recreation		
		-
Other Expenditures		
		-
TOTAL EXPENDITURES	\$	<u>53,654</u>

Number of persons employed by the District:

Full-Time

Part-Time

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-3. TEMPORARY INVESTMENTS
SEPTEMBER 30, 2018

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
--------------	---	--------------------------	--------------------------	---------------------------------------	---

The District had no investments at September 30, 2018.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-4. TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2018

	Maintenance Taxes	Debt Service Taxes	
Taxes Receivable, Beginning of Year	\$ 12,668	\$ -	
2017 Original Tax Levy, less abatements	89,317	-	
Adjustments	(18,430)	-	
Total to be accounted for	83,555	-	
Tax collections:			
Current year	70,887	-	
Prior years	12,668	-	
Total collections	83,555	-	
Taxes Receivable, End of Year	\$ -	\$ -	
Taxes Receivable, By Tax Years			
Rollbacks	\$ -	\$ -	
2017	-	-	
Taxes Receivable, End of Year	\$ -	\$ -	
Property Valuations:	2017	2016	2015*
Land and improvements	\$ 13,127,221 (a)	\$ 2,404,930 (a)	\$ - (a)
Total Property Valuations	\$ 13,127,221	\$ 2,404,930	\$ -
Tax Rates per \$100 Valuation:			
Debt Service tax rates	\$ -	\$ -	\$ -
Maintenance tax rates	0.54	0.54	-
Total Tax Rates per \$100 Valuation:	\$ 0.54	\$ 0.54	-
Original Tax Levy	\$ 70,887	\$ 12,986	\$ -
Percent of Taxes Collected to Taxes Levied **	100.0%	100.0%	N/A
Maximum Maintenance Tax Approved by Voters:	\$ 1.00 on 11/3/2015.		

* District did not levy a tax in 2015.

**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 in the District's bond offering documents or the District's annual bond disclosure filings.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2018

N/A - The District does not have any long-term debt outstanding at September 30, 2018.

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2018

	Total
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	\$ -
Interest Paid During the Current Fiscal Year	\$ -

Paying Agent's Name & Address:

	Unlimited Tax Bonds*	Road Bonds*	Parks and Recreational Facilities*
Bond Authority:			
Amount Authorized by Voters	\$ 97,550,000	\$ 24,335,000	\$ 22,130,000
Amount Issued	-	-	-
Remaining To Be Issued	\$ 97,550,000	\$ 24,335,000	\$ 22,130,000

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

Debt Service Fund Cash and Temporary Investments balances as of September 30, 2018:	\$ -
Average Annual Debt Service Payment (Principal and Interest) for the remaining term of all debt:	\$ -

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - THREE YEARS
SEPTEMBER 30, 2018

	Amounts					Percent of Fund Total Revenues				
	2018	2017	2016*	2015*	2014*	2018	2017	2016*	2015*	2014*
REVENUES:										
Property taxes, including penalties	\$ 83,560	\$ 318	\$ -	\$ -	\$ -	36.1%	0.9%	-	-	-
Drainage fees	132,750	-	-	-	-	57.4%	-	-	-	-
Developer advances	15,000	36,000	25,300	-	-	6.5%	99.1%	100.0%	-	-
TOTAL REVENUES	231,310	36,318	25,300	-	-	100.0%	100.0%	100.0%	-	-
EXPENDITURES:										
Legal fees	-	-	1,388	-	-	-	-	5.5%	-	-
Engineering fees	35,528	23,489	13,746	-	-	15.4%	64.7%	54.3%	-	-
Bookkeeping fees	4,600	2,900	3,950	-	-	2.0%	8.0%	15.6%	-	-
Audit fees	6,500	-	-	-	-	2.8%	-	-	-	-
Director fees, including payroll taxes	3,230	2,422	5,167	-	-	1.4%	6.7%	20.4%	-	-
Insurance	1,454	1,248	1,409	-	-	0.6%	3.4%	5.6%	-	-
Financial advisor fees	1,540	1,525	-	-	-	0.7%	4.2%	-	-	-
Tax appraisal/collection fees	563	3	-	-	-	0.2%	-	-	-	-
Other	239	176	1,825	-	-	0.1%	0.5%	7.2%	-	-
TOTAL EXPENDITURES	53,654	31,763	27,485	-	-	23.2%	87.5%	108.6%	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 177,656	\$ 4,555	\$ (2,185)	\$ -	\$ -	76.8%	12.5%	-8.6%	-	-
TOTAL ACTIVE RETAIL WATER CONNECTIONS	(1)	(1)	(1)	(1)	(1)					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	(1)	(1)	(1)	(1)	(1)					

* Unaudited.

(1) Water service to be provided by Jonah Special Utility District and wastewater service to be provided by City of Georgetown, Texas.

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2018**

Complete District Mailing Address:	<u>100 Congress Ave., Suite 1300</u> <u>Austin, TX 78701</u>
District Business Telephone Number:	<u>(512) 435-2300</u>
Submission Date of the most recent District Registration Form TWC Sections 36.054 & 49.054):	<u>September 8, 2017</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 * 9/30/2018	Expense Reimbursements 9/30/2018	Title at Year End
<i>Board Members:</i>				
CHRIS ZIGROSSI	(Elected) 5/5/2018 - 5/7/2022	\$ 900	\$ 65	President
MATTHEW KRUGER	(Elected) 5/18/2016 - 5/2/2020	\$ 750	\$ 55	Vice President
PATRICK B. OLIVER	(Elected) 5/5/2018 - 5/7/2022	\$ 900	\$ 65	Secretary
VERA MASSARO	(Elected) 5/18/2016 - 5/2/2020	\$ -	\$ -	Assistant Secretary
SHAWN BREEDLOVE	(Elected) 5/5/2018 - 5/7/2022	\$ 450	\$ 24	Assistant Secretary
<i>Consultants:</i>				
Armbrust & Brown PLLC	8/20/2015	\$ -	\$ -	Attorney
McCall Parkhurst & Horton LLP	8/20/2015	\$ -	\$ -	Tax Counsel
Jones-Heroy & Associates Inc.	8/20/2015	\$ 34,760	\$ -	Engineer
Bott & Douthitt, PLLC	12/18/2015	\$ 4,600	\$ -	District Accountant
McCall Gibson Swedlund Barfoot PLLC	5/19/2017	\$ 6,500	\$ -	Auditor
Public Finance Group LLC	8/20/2015	\$ 1,540	\$ -	Financial Advisor
Williamson County Tax Collector	11/16/2015	\$ 4	\$ -	Tax Collector

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

**OTHER SUPPLEMENTARY
INFORMATION**

SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
OSI-2. ASSESSED VALUE BY CLASSIFICATION
SEPTEMBER 30, 2018

Taxpayer	Type of Property	Tax Roll Year		
		2018	2017	2016
Continental Homes of Texas LP	N/A	\$ 7,469,399	\$ 2,901,064	\$ -
Pacesetter Homes LLC	N/A	4,068,228	1,317,400	-
Woodhull Family Partners	N/A	3,444,915	4,870,248	34,597
Century Land Holdings II LLC	N/A	2,971,446	-	-
Woodhull Ventures 2015 LP	N/A	2,532,160	4,015,100	2,359,600
Chesmar Homes Austin Ltd.	N/A	1,280,790	-	-
Pacesetter Homes LLC	N/A	555,017	-	-
Homeowner	N/A	227,390	-	-
Affinity Development Company LLC	N/A	214,391	-	-
Homeowner	N/A	193,146	-	-
Kasper Family Ltd Partnership	N/A	-	12,676	-
Woodhull Family Partners ET AL	N/A	-	10,733	10,733
Total		\$ 22,956,882	\$ 13,127,221	\$ 2,404,930
Percent of Assessed Valuation		93.6%	100.0%	100.0%

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SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
OSI-2. ASSESSED VALUE BY CLASSIFICATION
SEPTEMBER 30, 2018

Type of Property	Tax Roll Year					
	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Vacant Platted Lots/Tracts	\$ 11,511	-	\$ -	-	\$ -	-
Acreage, Land Only	4,364,554	17.9%	16,397,711	124.9%	6,784,908	282.1%
Farm and Ranch Improvements	11,042,037	45.0%	142,534	1.1%	1,500	0.1%
Tangible Personal, Business	47,142	0.2%	-	-	-	-
Residential Inventory	13,641,292	55.6%	-	-	-	-
Adjustments & Exemptions	(4,582,428)	-18.7%	(3,413,024)	-26.0%	(4,381,478)	-182.2%
Total	<u>\$ 24,524,108</u>	<u>100.0%</u>	<u>\$ 13,127,221</u>	<u>100.0%</u>	<u>\$ 2,404,930</u>	<u>100.0%</u>

APPENDIX B
Unaudited Financial Statement of the Developers

Woodhull Ventures 2015 LP and Continental Homes of Texas, L.P. (the “Developers”) has delivered the financial information concerning the Developers included in APPENDIX B (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 Developer and its financial condition and capabilities. Such Financial Information is relevant, among other reasons, to the ability of the Developers to continue developing its property within the District and to pay ad valorem taxes thereon. However, the Developers are not responsible for, liable for and has not made any commitment for the payment of the Bonds or any other obligation to the District, and the inclusion of the Financial Information herein should not be construed as an implication to that effect. The Developers are only responsible to pay taxes to the District in respect to property that it owns. See “TAX DATA – Principal Taxpayers” in the Official Statement. The Developers have no legal commitment to continue development of its land within the District, and the Developers may sell or otherwise dispose of their property within the District at any time. In addition, the financial conditions of the Developers are subject to change. The District cautions that the Financial Information should not be construed or interpreted as an indication of the investment security of the Bonds or of any other securities proposed to be issued by the District.

The Developers have represented to the District that the Financial Information was prepared from its books and records is a fair and accurate presentation of the items presented and of the financial condition of the Developers as of the dates stated, and does not fail to disclose any material fact necessary to make such Financial Information not misleading, and that there has not been any material adverse change in the financial conditions of the Developers since the dates at which the Financial Information was presented. Additionally, the Developers have agreed to inform the District prior to delivery of the Bonds of any material adverse changes in its financial condition since the dates of the Financial Information contained herein.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2019

Commission file number 1-14122

D.R. Horton, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

75-2386963

(I.R.S. Employer
Identification No.)

**1341 Horton Circle
Arlington, Texas 76011**

(Address of principal executive offices) (Zip Code)

(817) 390-8200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$.01 par value – 373,176,964 shares as of April 24, 2019

D.R. HORTON, INC. AND SUBSIDIARIES
FORM 10-Q
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2019	September 30, 2018
	(In millions) (Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 698.8	\$ 1,473.1
Restricted cash	32.4	32.9
Total cash, cash equivalents and restricted cash	731.2	1,506.0
Inventories:		
Construction in progress and finished homes	6,087.6	5,086.3
Residential land and lots — developed and under development	5,672.9	5,172.4
Land held for development	110.8	96.1
Land held for sale	49.0	40.2
Total inventory	11,920.3	10,395.0
Mortgage loans held for sale	796.5	796.4
Deferred income taxes, net of valuation allowance of \$17.0 million and \$17.7 million at March 31, 2019 and September 30, 2018, respectively	171.9	194.0
Property and equipment, net	437.9	401.1
Other assets	785.7	712.9
Goodwill	163.5	109.2
Total assets	\$ 15,007.0	\$ 14,114.6
LIABILITIES		
Accounts payable	\$ 658.5	\$ 624.7
Accrued expenses and other liabilities	1,192.1	1,127.5
Notes payable	3,622.4	3,203.5
Total liabilities	5,473.0	4,955.7
Commitments and contingencies (Note K)		
EQUITY		
Preferred stock, \$.10 par value, 30,000,000 shares authorized, no shares issued	—	—
Common stock, \$.01 par value, 1,000,000,000 shares authorized, 391,091,572 shares issued and 373,132,964 shares outstanding at March 31, 2019 and 388,120,243 shares issued and 376,261,635 shares outstanding at September 30, 2018	3.9	3.9
Additional paid-in capital	3,123.4	3,085.0
Retained earnings	6,771.6	6,217.9
Treasury stock, 17,958,608 shares and 11,858,608 shares at March 31, 2019 and September 30, 2018, respectively, at cost	(538.6)	(322.4)
Stockholders' equity	9,360.3	8,984.4
Noncontrolling interests	173.7	174.5
Total equity	9,534.0	9,158.9
Total liabilities and equity	\$ 15,007.0	\$ 14,114.6

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(In millions, except per share data) (Unaudited)			
Revenues	\$ 4,128.7	\$ 3,794.7	\$ 7,647.7	\$ 7,127.6
Cost of sales	3,256.7	2,961.6	6,007.8	5,541.8
Selling, general and administrative expense	444.2	400.9	847.0	785.1
Gain on sale of assets	(29.3)	(1.1)	(31.3)	(14.5)
Other (income) expense	(5.7)	(11.5)	(14.3)	(20.9)
Income before income taxes	462.8	444.8	838.5	836.1
Income tax expense	108.4	94.0	197.4	296.4
Net income	354.4	350.8	641.1	539.7
Net income (loss) attributable to noncontrolling interests	3.1	(0.2)	2.7	(0.6)
Net income attributable to D.R. Horton, Inc.	\$ 351.3	\$ 351.0	\$ 638.4	\$ 540.3
Basic net income per common share attributable to D.R. Horton, Inc.	\$ 0.94	\$ 0.93	\$ 1.71	\$ 1.44
Weighted average number of common shares	373.3	376.8	374.2	376.3
Diluted net income per common share attributable to D.R. Horton, Inc.	\$ 0.93	\$ 0.91	\$ 1.68	\$ 1.41
Adjusted weighted average number of common shares	377.7	383.9	378.9	383.8

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF TOTAL EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
(In millions, except common stock share data) (Unaudited)						
Balances at September 30, 2018 (376,261,635 shares)	\$ 3.9	\$ 3,085.0	\$ 6,217.9	\$ (322.4)	\$ 174.5	\$ 9,158.9
Cumulative effect of adoption of ASC 606 (see Note A)	—	—	27.1	—	—	27.1
Net income	—	—	287.2	—	(0.5)	286.7
Exercise of stock options (806,817 shares)	—	8.6	—	—	—	8.6
Stock issued under employee benefit plans (273,608 shares)	—	—	—	—	—	—
Cash paid for shares withheld for taxes	—	(4.1)	—	—	—	(4.1)
Stock-based compensation expense	—	18.1	—	—	—	18.1
Cash dividends declared (\$0.15 per share)	—	—	(56.0)	—	—	(56.0)
Repurchases of common stock (4,100,000 shares)	—	—	—	(140.6)	—	(140.6)
Distributions to noncontrolling interests	—	—	—	—	(0.5)	(0.5)
Balances at December 31, 2018 (373,242,060 shares)	\$ 3.9	\$ 3,107.6	\$ 6,476.2	\$ (463.0)	\$ 173.5	\$ 9,298.2
Net income	—	—	351.3	—	3.1	354.4
Exercise of stock options (831,489 shares)	—	11.4	—	—	—	11.4
Stock issued under employee benefit plans (1,059,415 shares)	—	2.0	—	—	0.3	2.3
Cash paid for shares withheld for taxes	—	(15.4)	—	—	—	(15.4)
Stock-based compensation expense	—	17.8	—	—	—	17.8
Cash dividends declared (\$0.15 per share)	—	—	(55.9)	—	—	(55.9)
Repurchases of common stock (2,000,000 shares)	—	—	—	(75.6)	—	(75.6)
Distributions to noncontrolling interests	—	—	—	—	(3.2)	(3.2)
Balances at March 31, 2019 (373,132,964 shares)	\$ 3.9	\$ 3,123.4	\$ 6,771.6	\$ (538.6)	\$ 173.7	\$ 9,534.0

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF TOTAL EQUITY (Continued)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
(In millions, except common stock share data) (Unaudited)						
Balances at September 30, 2017 (374,986,079 shares)	\$ 3.8	\$ 2,992.2	\$ 4,946.0	\$ (194.9)	\$ 0.5	\$ 7,747.6
Noncontrolling interests acquired	—	—	—	—	175.2	175.2
Net income	—	—	189.3	—	(0.5)	188.8
Exercise of stock options (916,913 shares)	0.1	14.7	—	—	—	14.8
Stock issued under employee benefit plans (290,974 shares)	—	—	—	—	—	—
Cash paid for shares withheld for taxes	—	(10.3)	—	—	—	(10.3)
Stock-based compensation expense	—	13.6	—	—	—	13.6
Cash dividends declared (\$0.125 per share)	—	—	(47.1)	—	—	(47.1)
Repurchases of common stock (500,000 shares)	—	—	—	(25.4)	—	(25.4)
Distributions to noncontrolling interests	—	—	—	—	(1.8)	(1.8)
Balances at December 31, 2017 (375,693,966 shares)	\$ 3.9	\$ 3,010.2	\$ 5,088.2	\$ (220.3)	\$ 173.4	\$ 8,055.4
Net income	—	—	351.0	—	(0.2)	350.8
Exercise of stock options (1,046,210 shares)	—	16.3	—	—	—	16.3
Stock issued under employee benefit plans (1,169,341 shares)	—	1.8	—	—	—	1.8
Stock-based compensation expense	—	17.4	—	—	—	17.4
Cash dividends declared (\$0.125 per share)	—	—	(47.1)	—	—	(47.1)
Repurchases of common stock (500,000 shares)	—	—	—	(22.5)	—	(22.5)
Distributions to noncontrolling interests	—	—	—	—	(0.2)	(0.2)
Balances at March 31, 2018 (377,409,517 shares)	\$ 3.9	\$ 3,045.7	\$ 5,392.1	\$ (242.8)	\$ 173.0	\$ 8,371.9

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31,	
	2019	2018
	(In millions) (Unaudited)	
OPERATING ACTIVITIES		
Net income	\$ 641.1	\$ 539.7
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	34.1	33.1
Amortization of discounts and fees	5.1	2.4
Stock-based compensation expense	35.9	31.0
Equity in earnings of unconsolidated entities	(0.5)	(2.7)
Distributions of earnings of unconsolidated entities	0.5	0.2
Deferred income taxes	12.6	145.0
Inventory and land option charges	21.8	33.8
Gain on sale of assets	(31.3)	(14.5)
Changes in operating assets and liabilities:		
Increase in construction in progress and finished homes	(755.2)	(514.5)
Increase in residential land and lots – developed, under development, held for development and held for sale	(445.6)	(271.5)
(Increase) decrease in other assets	(39.9)	4.4
Increase in mortgage loans held for sale	—	(70.7)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	59.7	(14.5)
Net cash used in operating activities	(461.7)	(98.8)
INVESTING ACTIVITIES		
Expenditures for property and equipment	(69.8)	(39.5)
Proceeds from sale of assets	83.8	253.4
Expenditures related to multi-family rental properties	(28.3)	(39.5)
Return of investment in unconsolidated entities	4.4	15.1
Net principal increase of other mortgage loans and real estate owned	(1.6)	—
Payments related to business acquisitions, net of cash acquired	(309.6)	(158.1)
Net cash (used in) provided by investing activities	(321.1)	31.4
FINANCING ACTIVITIES		
Proceeds from notes payable	1,815.0	1,913.6
Repayment of notes payable	(1,531.0)	(1,752.5)
Advances on mortgage repurchase facility, net	53.0	69.8
Proceeds from stock associated with certain employee benefit plans	22.3	32.7
Cash paid for shares withheld for taxes	(19.5)	(10.3)
Cash dividends paid	(111.9)	(94.1)
Repurchases of common stock	(216.2)	(47.9)
Distributions to noncontrolling interests, net	(3.7)	(2.0)
Net cash provided by financing activities	8.0	109.3
Net (decrease) increase in cash, cash equivalents and restricted cash	(774.8)	41.9
Cash, cash equivalents and restricted cash at beginning of period	1,506.0	1,024.3
Cash, cash equivalents and restricted cash at end of period	\$ 731.2	\$ 1,066.2
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES:		
Notes payable issued for inventory	\$ 80.8	\$ —
Stock issued under employee incentive plans	\$ 49.0	\$ 63.4
Accrual for holdback payment related to acquisition	\$ 16.3	\$ —

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited, consolidated financial statements include the accounts of D.R. Horton, Inc. and all of its 100% owned, majority-owned and controlled subsidiaries, which are collectively referred to as the Company, unless the context otherwise requires. Noncontrolling interests represent the proportionate equity interests in consolidated entities that are not 100% owned by the Company. The Company owns a 75% controlling interest in Forestar Group Inc. (Forestar) and therefore is required to consolidate 100% of Forestar within its consolidated financial statements, and the 25% interest the Company does not own is accounted for as noncontrolling interests. All intercompany accounts, transactions and balances have been eliminated in consolidation.

The financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, these financial statements reflect all adjustments considered necessary to fairly state the results for the interim periods shown, including normal recurring accruals and other items. These financial statements, including the consolidated balance sheet as of September 30, 2018, which was derived from audited financial statements, do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2018.

Changes in Presentation and Reclassifications

In connection with the adoption of Accounting Standards Update (ASU) 2016-18 in fiscal 2019, restricted cash is now included with cash and cash equivalents when reconciling beginning and ending amounts in the consolidated statements of cash flows. Prior period amounts have been reclassified to conform to the current year presentation, resulting in a decrease in cash used in investing activities of \$38.9 million for the six months ended March 31, 2018.

In August 2018, the Securities and Exchange Commission (SEC) issued Final Rule Release No. 33-10532, "Disclosure Update and Simplification," which makes a number of changes meant to simplify interim disclosures. In complying with the relevant aspects of the rule within the current year quarterly reports, the Company has removed the presentation of cash dividends declared per common share from the statements of operations and has added the consolidated statements of total equity.

Certain other prior period amounts have been reclassified to conform to the current year presentation.

Adoption of New Accounting Standard

On October 1, 2018, the Company adopted Accounting Standards Codification 606, "Revenue from Contracts with Customers" (ASC 606), which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services and satisfaction of performance obligations to a customer in an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company applied the modified retrospective method to contracts that were not completed as of October 1, 2018. Results for the reporting period beginning after October 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and will continue to be reported under the previous accounting standards. The Company recorded an increase to retained earnings of \$27.1 million, net of tax, as of October 1, 2018, due to the cumulative effect of adopting ASC 606, which was primarily related to the recognition of contract assets totaling \$32.4 million for insurance brokerage commission renewals. Under ASC 606, the Company recognizes revenue and a contract asset for estimated future renewals of these policies upon issuance of the initial policy, the date at which the performance obligation is satisfied. There was not a material impact to revenues as a result of applying ASC 606 for the three and six months ended March 31, 2019, and there have not been significant changes to the Company's business processes, systems, or internal controls as a result of implementing the standard.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions 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 revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Seasonality

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three and six months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2019 or subsequent periods.

Revenue Recognition

Homebuilding revenue and related profit are generally recognized at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. The Company's performance obligation, to deliver the agreed-upon home, is generally satisfied in less than one year from the original contract date. Proceeds from home closings held for the Company's benefit at title companies are included in homebuilding cash and cash equivalents in the consolidated balance sheets.

The Company rarely purchases land for resale, but periodically may elect to sell parcels of land that no longer fit into its strategic operating plans. Cash consideration from land sales is typically due on the closing date, which is generally when performance obligations are satisfied.

Financial services revenues associated with the Company's title operations are recognized as closing services are rendered and title insurance policies are issued, both of which generally occur simultaneously as each home is closed. The Company transfers substantially all underwriting risk associated with title insurance policies to third-party insurers. The Company typically elects the fair value option for its mortgage loan originations. Mortgage loans held for sale are initially recorded at fair value based on either sale commitments or current market quotes and are adjusted for subsequent changes in fair value until the loans are sold. Net origination costs and fees associated with mortgage loans are recognized at the time of origination. The expected net future cash flows related to the associated servicing of a loan are included in the measurement of all written loan commitments that are accounted for at fair value through earnings at the time of commitment. The Company sells substantially all of the mortgages it originates and the related servicing rights to third-party purchasers. Interest income is earned from the date a mortgage loan is originated until the loan is sold.

The Company collects insurance commissions on homeowner policies placed with third party carriers through its wholly owned insurance agency. The Company recognizes revenue and a contract asset for estimated future renewals of these policies upon issuance of the initial policy, the date at which the performance obligation is satisfied.

Business Acquisitions

During the first quarter of fiscal 2019, the Company acquired the homebuilding operations of Westport Homes, Classic Builders and Terramor Homes for \$325.9 million. The assets acquired included approximately 700 homes in inventory, 4,500 lots and control of approximately 4,300 additional lots through land purchase contracts. The Company also acquired a sales order backlog of approximately 700 homes. Westport Homes operates in Indianapolis and Fort Wayne, Indiana, and Columbus, Ohio; Classic Builders operates in Des Moines, Iowa; and Terramor Homes operates in Raleigh, North Carolina.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

The Company's allocation of the aggregate purchase price to the assets and liabilities acquired through these transactions is not finalized and is subject to revision as additional information becomes available and more detailed analyses are completed. The preliminary allocation of the purchase price to the assets and liabilities acquired is as follows (in millions):

Inventories	\$	265.5
Other assets		23.3
Goodwill		54.3
Intangible assets		8.6
Other liabilities		(25.8)
Net assets acquired	\$	<u>325.9</u>

As a result of these transactions, the Company's preliminary estimate of goodwill is \$54.3 million, of which \$49.7 million was allocated to the Midwest region and \$4.6 million was allocated to the East region. The goodwill is tax deductible and relates to expected synergies from expanding the Company's market presence in its Midwest and East regions, the experienced and knowledgeable workforce of these entities and their capital efficient operating processes. The intangible assets will be amortized on a straight-line basis to selling, general and administrative (SG&A) expense over their expected lives, which range from one to three years.

Pending Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, "Leases," which requires that lease assets and liabilities be recognized on the balance sheet and that key information about leasing arrangements be disclosed. The guidance is effective for the Company beginning October 1, 2019, although early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses," which replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information in determining credit loss estimates. The guidance is effective for the Company beginning October 1, 2020 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other," which simplifies the measurement of goodwill impairment by removing the second step of the goodwill impairment test and requires the determination of the fair value of individual assets and liabilities of a reporting unit. Under the new guidance, goodwill impairment is measured as the amount by which a reporting unit's carrying amount exceeds its fair value with the loss recognized limited to the total amount of goodwill allocated to the reporting unit. The guidance is effective for the Company beginning October 1, 2020 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE B – SEGMENT INFORMATION

The Company is a national homebuilder that is primarily engaged in the acquisition and development of land and the construction and sale of residential homes, with operations in 84 markets in 29 states across the United States. The Company's operating segments are its 51 homebuilding divisions, its majority-owned Forestar residential lot development operations, its financial services operations and its other business activities. The Company's reporting segments are its homebuilding reporting segments, its Forestar land development segment and its financial services segment. The homebuilding operating segments are aggregated into the following six reporting segments: East, Midwest, Southeast, South Central, Southwest and West. These reporting segments have homebuilding operations located in the following states:

East:	Delaware, Georgia (Savannah only), Maryland, New Jersey, North Carolina, Pennsylvania, South Carolina and Virginia
Midwest:	Colorado, Illinois, Indiana, Iowa, Minnesota and Ohio
Southeast:	Alabama, Florida, Georgia, Mississippi and Tennessee
South Central:	Louisiana, Oklahoma and Texas
Southwest:	Arizona and New Mexico
West:	California, Hawaii, Nevada, Oregon, Utah and Washington

The Company's homebuilding divisions design, build and sell single-family detached homes on lots they develop and on fully developed lots purchased ready for home construction. To a lesser extent, the homebuilding divisions also build and sell attached homes, such as townhomes, duplexes and triplexes. Most of the revenue generated by the Company's homebuilding operations is from the sale of completed homes and to a lesser extent from the sale of land and lots.

The Forestar segment is a residential lot development company with operations in 41 markets and 17 states. The Company's homebuilding divisions and Forestar are identifying land development opportunities to expand Forestar's platform, and the homebuilding divisions are acquiring finished lots from Forestar in accordance with the master supply agreement between the two companies. Forestar's segment results are presented on their historical cost basis, consistent with the manner in which management evaluates segment performance.

The Company's financial services segment provides mortgage financing and title agency services to homebuyers in many of the Company's homebuilding markets. The segment generates the substantial majority of its revenues from originating and selling mortgages and collecting fees for title insurance agency and closing services. The Company sells substantially all of the mortgages it originates and the related servicing rights to third-party purchasers.

In addition to its homebuilding, Forestar and financial services operations, the Company has subsidiaries that engage in other business activities. These subsidiaries conduct insurance-related operations, construct and own income-producing rental properties, own non-residential real estate including ranch land and improvements and own and operate oil and gas related assets. One of these subsidiaries, DHI Communities, constructs multi-family rental properties and has four projects under active construction and two projects that are substantially complete at March 31, 2019. In January 2019, DHI Communities sold its first multi-family rental property for \$73.4 million and recorded a gain on the sale of \$29.3 million, which is included in the consolidated statements of operations for the three and six months ended March 31, 2019. At March 31, 2019 and September 30, 2018, the consolidated balance sheets included \$170.2 million and \$173.2 million, respectively, of assets related to DHI Communities. The operating results of these subsidiaries are immaterial for separate reporting and therefore are grouped together and presented as other.

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The accounting policies of the reporting segments are described throughout Note A included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2018. Financial information relating to the Company's reporting segments is as follows:

	March 31, 2019						
	Homebuilding	Forestar (1)	Financial Services	Other (2)	Eliminations (3)	Other Adjustments (4)	Consolidated
	(In millions)						
Assets							
Cash and cash equivalents	\$ 557.3	\$ 66.4	\$ 61.1	\$ 14.0	\$ —	\$ —	\$ 698.8
Restricted cash	9.4	15.7	7.3	—	—	—	32.4
Inventories:							
Construction in progress and finished homes	6,086.1	—	—	—	1.5	—	6,087.6
Residential land and lots — developed and under development	4,879.4	803.0	—	—	(22.1)	12.6	5,672.9
Land held for development	62.3	48.5	—	—	—	—	110.8
Land held for sale	49.0	—	—	—	—	—	49.0
	<u>11,076.8</u>	<u>851.5</u>	<u>—</u>	<u>—</u>	<u>(20.6)</u>	<u>12.6</u>	<u>11,920.3</u>
Mortgage loans held for sale	—	—	796.5	—	—	—	796.5
Deferred income taxes, net	155.0	22.9	—	—	1.5	(7.5)	171.9
Property and equipment, net	220.2	2.4	3.4	211.9	—	—	437.9
Other assets	732.8	26.0	52.1	37.4	(75.2)	12.6	785.7
Goodwill	134.3	—	—	—	—	29.2	163.5
	<u>\$ 12,885.8</u>	<u>\$ 984.9</u>	<u>\$ 920.4</u>	<u>\$ 263.3</u>	<u>\$ (94.3)</u>	<u>\$ 46.9</u>	<u>\$ 15,007.0</u>
Liabilities							
Accounts payable	\$ 631.7	\$ 16.1	\$ 9.4	\$ 3.0	\$ (1.7)	\$ —	\$ 658.5
Accrued expenses and other liabilities	1,102.2	131.9	43.8	10.9	(83.3)	(13.4)	1,192.1
Notes payable	2,777.2	149.2	690.7	—	—	5.3	3,622.4
	<u>\$ 4,511.1</u>	<u>\$ 297.2</u>	<u>\$ 743.9</u>	<u>\$ 13.9</u>	<u>\$ (85.0)</u>	<u>\$ (8.1)</u>	<u>\$ 5,473.0</u>

(1) Amounts are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate balances of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

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September 30, 2018

	Homebuilding	Forestar (1)	Financial Services	Other (2)	Eliminations (3)	Other Adjustments (4)	Consolidated
(In millions)							
Assets							
Cash and cash equivalents	\$ 1,111.8	\$ 318.8	\$ 33.7	\$ 8.8	\$ —	\$ —	\$ 1,473.1
Restricted cash	8.6	16.2	8.1	—	—	—	32.9
Inventories:							
Construction in progress and finished homes	5,084.4	—	—	—	1.9	—	5,086.3
Residential land and lots — developed and under development	4,689.3	463.1	—	—	(7.2)	27.2	5,172.4
Land held for development	61.2	34.9	—	—	—	—	96.1
Land held for sale	40.2	—	—	—	—	—	40.2
	<u>9,875.1</u>	<u>498.0</u>	<u>—</u>	<u>—</u>	<u>(5.3)</u>	<u>27.2</u>	<u>10,395.0</u>
Mortgage loans held for sale	—	—	796.4	—	—	—	796.4
Deferred income taxes, net	176.5	26.9	—	—	1.1	(10.5)	194.0
Property and equipment, net	207.1	1.8	3.0	189.2	—	—	401.1
Other assets	673.7	31.4	43.6	0.9	(48.6)	11.9	712.9
Goodwill	80.0	—	—	—	—	29.2	109.2
	<u>\$ 12,132.8</u>	<u>\$ 893.1</u>	<u>\$ 884.8</u>	<u>\$ 198.9</u>	<u>\$ (52.8)</u>	<u>\$ 57.8</u>	<u>\$ 14,114.6</u>
Liabilities							
Accounts payable	\$ 612.4	\$ 11.2	\$ 0.2	\$ 4.2	\$ (3.3)	\$ —	\$ 624.7
Accrued expenses and other liabilities	1,041.3	95.7	41.9	9.9	(46.1)	(15.2)	1,127.5
Notes payable	2,445.9	111.7	637.7	—	—	8.2	3,203.5
	<u>\$ 4,099.6</u>	<u>\$ 218.6</u>	<u>\$ 679.8</u>	<u>\$ 14.1</u>	<u>\$ (49.4)</u>	<u>\$ (7.0)</u>	<u>\$ 4,955.7</u>

- (1) Amounts are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.
- (2) Amounts represent the aggregate balances of certain subsidiaries that are immaterial for separate reporting.
- (3) Amounts represent the elimination of intercompany transactions and the reclassification of Forestar interest expense to inventory.
- (4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

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March 31, 2019

Three Months Ended March 31, 2019								
	<u>Homebuilding</u>	<u>Forestar (1)</u>	<u>Financial Services</u>	<u>Other (2)</u>	<u>Eliminations (3)</u>	<u>Other Adjustments (4)</u>	<u>Consolidated</u>	<u>(In millions)</u>
Revenues:								
Home sales	\$ 3,980.5	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,980.5	
Land/lot sales and other	14.9	65.4	—	6.0	(39.7)	—	46.6	
Financial services	—	—	101.6	—	—	—	101.6	
	<u>3,995.4</u>	<u>65.4</u>	<u>101.6</u>	<u>6.0</u>	<u>(39.7)</u>	<u>—</u>	<u>4,128.7</u>	
Cost of sales:								
Home sales (5)	3,214.2	—	—	—	(0.7)	—	3,213.5	
Land/lot sales and other	9.3	43.7	—	—	(31.8)	8.2	29.4	
Inventory and land option charges	13.8	—	—	—	—	—	13.8	
	<u>3,237.3</u>	<u>43.7</u>	<u>—</u>	<u>—</u>	<u>(32.5)</u>	<u>8.2</u>	<u>3,256.7</u>	
Selling, general and administrative expense	359.3	6.2	71.3	7.3	—	0.1	444.2	
Gain on sale of assets	—	—	—	(29.3)	—	—	(29.3)	
Other (income) expense	(1.6)	(0.9)	(3.7)	0.5	—	—	(5.7)	
Income before income taxes	<u>\$ 400.4</u>	<u>\$ 16.4</u>	<u>\$ 34.0</u>	<u>\$ 27.5</u>	<u>\$ (7.2)</u>	<u>\$ (8.3)</u>	<u>\$ 462.8</u>	

(1) Results are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate results of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

(5) Amount in the Eliminations column represents the profit on lots sold from Forestar to the homebuilding segment. Intercompany profit is eliminated in the consolidated financial statements when Forestar sells lots to the homebuilding segment and is recognized in the consolidated financial statements when the homebuilding segment closes homes on the lots to homebuyers.

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March 31, 2019

Six Months Ended March 31, 2019

	Homebuilding	Forestar (1)	Financial Services	Other (2)	Eliminations (3)	Other Adjustments (4)	Consolidated
(In millions)							
Revenues:							
Home sales	\$ 7,391.2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,391.2
Land/lot sales and other	21.7	103.8	—	12.8	(68.7)	—	69.6
Financial services	—	—	186.9	—	—	—	186.9
	<u>7,412.9</u>	<u>103.8</u>	<u>186.9</u>	<u>12.8</u>	<u>(68.7)</u>	<u>—</u>	<u>7,647.7</u>
Cost of sales:							
Home sales (5)	5,943.4	—	—	—	(1.7)	—	5,941.7
Land/lot sales and other	14.5	74.3	—	—	(56.3)	11.8	44.3
Inventory and land option charges	21.8	—	—	—	—	—	21.8
	<u>5,979.7</u>	<u>74.3</u>	<u>—</u>	<u>—</u>	<u>(58.0)</u>	<u>11.8</u>	<u>6,007.8</u>
Selling, general and administrative expense	683.9	11.9	137.0	13.9	—	0.3	847.0
Gain on sale of assets	(2.0)	(0.9)	—	(29.3)	—	0.9	(31.3)
Other (income) expense	(3.5)	(2.8)	(7.7)	(0.3)	—	—	(14.3)
Income before income taxes	<u>\$ 754.8</u>	<u>\$ 21.3</u>	<u>\$ 57.6</u>	<u>\$ 28.5</u>	<u>\$ (10.7)</u>	<u>\$ (13.0)</u>	<u>\$ 838.5</u>
Summary Cash Flow Information:							
Depreciation and amortization	\$ 30.1	\$ 0.1	\$ 0.7	\$ 2.9	\$ —	\$ 0.3	\$ 34.1
Cash (used in) provided by operating activities	<u>\$ (215.9)</u>	<u>\$ (283.4)</u>	<u>\$ 48.8</u>	<u>\$ (4.1)</u>	<u>\$ (2.7)</u>	<u>\$ (4.4)</u>	<u>\$ (461.7)</u>

(1) Results are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate results of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

(5) Amount in the Eliminations column represents the profit on lots sold from Forestar to the homebuilding segment. Intercompany profit is eliminated in the consolidated financial statements when Forestar sells lots to the homebuilding segment and is recognized in the consolidated financial statements when the homebuilding segment closes homes on the lots to homebuyers.

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Three Months Ended March 31, 2018

	Homebuilding	Forestar (1)	Financial Services	Other (2)	Eliminations (3)	Other Adjustments (4)	Consolidated
(In millions)							
Revenues:							
Home sales	\$ 3,672.1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,672.1
Land/lot sales and other	13.6	22.6	—	—	(8.5)	—	27.7
Financial services	—	—	94.9	—	—	—	94.9
	<u>3,685.7</u>	<u>22.6</u>	<u>94.9</u>	<u>—</u>	<u>(8.5)</u>	<u>—</u>	<u>3,794.7</u>
Cost of sales:							
Home sales	2,907.5	—	—	—	—	—	2,907.5
Land/lot sales and other	12.0	16.2	—	—	(6.7)	2.5	24.0
Inventory and land option charges	30.1	—	—	—	—	—	30.1
	<u>2,949.6</u>	<u>16.2</u>	<u>—</u>	<u>—</u>	<u>(6.7)</u>	<u>2.5</u>	<u>2,961.6</u>
Selling, general and administrative expense	322.7	5.6	66.7	5.8	—	0.1	400.9
Gain on sale of assets	—	(2.7)	—	—	—	1.6	(1.1)
Interest expense	—	2.1	—	—	(2.1)	—	—
Other (income) expense	(2.6)	(3.2)	(3.2)	(3.6)	—	1.1	(11.5)
Income (loss) before income taxes	<u>\$ 416.0</u>	<u>\$ 4.6</u>	<u>\$ 31.4</u>	<u>\$ (2.2)</u>	<u>\$ 0.3</u>	<u>\$ (5.3)</u>	<u>\$ 444.8</u>

- (1) Results are presented on Forestar’s historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.
- (2) Amounts represent the aggregate results of certain subsidiaries that are immaterial for separate reporting.
- (3) Amounts represent the elimination of intercompany transactions and the reclassification of Forestar interest expense to inventory.
- (4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

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March 31, 2019

Six Months Ended March 31, 2018

	Homebuilding	Forestar (1)	Financial Services	Other (2)	Eliminations (3)	Other Adjustments (4)	Consolidated
(In millions)							
Revenues:							
Home sales	\$ 6,856.6	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,856.6
Land/lot sales and other	50.0	53.5	—	—	(8.5)	—	95.0
Financial services	—	—	176.0	—	—	—	176.0
	<u>6,906.6</u>	<u>53.5</u>	<u>176.0</u>	<u>—</u>	<u>(8.5)</u>	<u>—</u>	<u>7,127.6</u>
Cost of sales:							
Home sales	5,429.0	—	—	—	—	—	5,429.0
Land/lot sales and other	43.3	35.5	—	—	(6.7)	6.9	79.0
Inventory and land option charges	33.8	—	—	—	—	—	33.8
	<u>5,506.1</u>	<u>35.5</u>	<u>—</u>	<u>—</u>	<u>(6.7)</u>	<u>6.9</u>	<u>5,541.8</u>
Selling, general and administrative expense	627.5	19.1	128.4	9.8	—	0.3	785.1
Gain on sale of assets	(13.4)	(2.7)	—	—	—	1.6	(14.5)
Interest expense	—	4.2	—	—	(4.2)	—	—
Other (income) expense	(3.4)	(11.3)	(6.1)	(6.5)	—	6.4	(20.9)
Income (loss) before income taxes	<u>\$ 789.8</u>	<u>\$ 8.7</u>	<u>\$ 53.7</u>	<u>\$ (3.3)</u>	<u>\$ 2.4</u>	<u>\$ (15.2)</u>	<u>\$ 836.1</u>
Summary Cash Flow Information:							
Depreciation and amortization	<u>\$ 26.3</u>	<u>\$ 2.5</u>	<u>\$ 0.7</u>	<u>\$ 3.3</u>	<u>\$ —</u>	<u>\$ 0.3</u>	<u>\$ 33.1</u>
Cash provided by (used in) operating activities	<u>\$ 90.7</u>	<u>\$ (150.2)</u>	<u>\$ (30.7)</u>	<u>\$ (0.5)</u>	<u>\$ —</u>	<u>\$ (8.1)</u>	<u>\$ (98.8)</u>

(1) Results are presented from the date of acquisition and on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate results of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions and the reclassification of Forestar interest expense to inventory.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

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Homebuilding Inventories by Reporting Segment (1)

	March 31, 2019	September 30, 2018
(In millions)		
East	\$ 1,354.4	\$ 1,192.0
Midwest	817.7	583.1
Southeast	2,852.1	2,668.7
South Central	2,720.6	2,439.4
Southwest	628.1	499.7
West	2,466.9	2,268.5
Corporate and unallocated (2)	237.0	223.7
	\$ 11,076.8	\$ 9,875.1

- (1) Homebuilding inventories are the only assets included in the measure of homebuilding segment assets used by the Company's chief operating decision makers.
(2) Corporate and unallocated consists primarily of capitalized interest and property taxes.

Homebuilding Results by Reporting Segment

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
(In millions)				
Revenues				
East	\$ 518.2	\$ 435.8	\$ 965.7	\$ 828.9
Midwest	248.1	203.6	497.2	365.0
Southeast	1,205.3	1,042.0	2,219.2	2,030.6
South Central	990.2	919.0	1,862.7	1,727.8
Southwest	173.2	172.1	316.9	328.5
West	860.4	913.2	1,551.2	1,625.8
	\$ 3,995.4	\$ 3,685.7	\$ 7,412.9	\$ 6,906.6
Inventory and Land Option Charges				
East	\$ 0.3	\$ 0.7	\$ 1.7	\$ 0.6
Midwest	0.2	0.2	0.5	0.4
Southeast	2.2	25.1	3.5	26.2
South Central	1.4	0.6	1.9	1.9
Southwest	0.1	—	0.2	0.8
West	9.6	3.5	14.0	3.9
	\$ 13.8	\$ 30.1	\$ 21.8	\$ 33.8
Income before Income Taxes (1)				
East	\$ 45.9	\$ 46.7	\$ 83.9	\$ 91.7
Midwest	9.5	18.7	20.2	32.0
Southeast	131.0	96.3	243.2	218.8
South Central	119.3	120.5	225.3	222.0
Southwest	18.6	22.0	36.3	36.7
West	76.1	111.8	145.9	188.6
	\$ 400.4	\$ 416.0	\$ 754.8	\$ 789.8

- (1) Expenses maintained at the corporate level consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating the Company's corporate office. The amortization of capitalized interest and property taxes is allocated to each homebuilding segment based on the segment's cost of sales, while expenses associated with the corporate office are allocated to each homebuilding segment based on the segment's inventory balances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
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NOTE C – INVENTORIES

At March 31, 2019, the Company reviewed the performance and outlook for all of its communities and land inventories for indicators of potential impairment and performed detailed impairment evaluations and analyses when necessary. The Company performed detailed impairment evaluations of communities and land inventories with a combined carrying value of \$95.5 million and recorded impairment charges of \$7.7 million during the three months ended March 31, 2019 to reduce the carrying value of impaired communities to fair value. During the six months ended March 31, 2019, impairment charges totaled \$11.9 million. There were \$3.0 million and \$4.4 million of impairment charges recorded in the three and six months ended March 31, 2018, respectively. Inventory impairments and the land option charges discussed below are included in cost of sales in the consolidated statements of operations.

During the three and six months ended March 31, 2019, the Company wrote off \$6.1 million and \$9.9 million, respectively, of earnest money deposits and pre-acquisition costs related to land purchase contracts that the Company has terminated or expects to terminate. Earnest money and pre-acquisition cost write-offs for the three and six months ended March 31, 2018 were \$2.6 million and \$4.9 million, respectively. Inventory and land option charges for the three and six months ended March 31, 2018 also included a charge of \$24.5 million related to the settlement of an outstanding dispute associated with a land transaction.

In February 2018, the Forestar land development segment sold a portion of its assets for \$232 million. This strategic asset sale included projects owned both directly and indirectly through ventures. The total net proceeds after certain purchase price adjustments, closing costs and other costs associated with selling these projects was \$217.5 million, and a gain on the sale of these assets of \$0.7 million is included in the Company's consolidated statement of operations for the three and six months ended March 31, 2018.

D.R. HORTON, INC. AND SUBSIDIARIES
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NOTE D – NOTES PAYABLE

The Company's notes payable at their principal amounts, net of unamortized discounts and debt issuance costs, consist of the following:

	March 31, 2019	September 30, 2018
(In millions)		
Homebuilding:		
Unsecured:		
Revolving credit facility, maturing 2023	\$ 750.0	\$ —
3.75% senior notes due 2019	—	499.6
4.0% senior notes due 2020	499.2	498.8
2.55% senior notes due 2020	398.4	397.9
4.375% senior notes due 2022	348.6	348.4
4.75% senior notes due 2023	298.8	298.7
5.75% senior notes due 2023	398.2	398.0
Other secured notes	84.0	4.5
	2,777.2	2,445.9
Forestar:		
Unsecured:		
Revolving credit facility, maturing 2021	35.0	—
3.75% convertible senior notes due 2020	119.5	119.9
	154.5	119.9
Financial Services:		
Mortgage repurchase facility, maturing 2020	690.7	637.7
	\$ 3,622.4	\$ 3,203.5

Debt issuance costs that were deducted from the carrying amounts of the homebuilding senior notes totaled \$6.8 million and \$8.5 million at March 31, 2019 and September 30, 2018, respectively. These costs are capitalized into inventory as they are amortized. Forestar's 3.75% convertible senior notes due 2020 include an unamortized fair value adjustment of \$5.3 million and \$8.2 million at March 31, 2019 and September 30, 2018, respectively.

Homebuilding:

The Company has a \$1.325 billion senior unsecured homebuilding revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$1.9 billion, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to approximately 50% of the revolving credit commitment. Letters of credit issued under the facility reduce the available borrowing capacity. The interest rate on borrowings under the revolving credit facility may be based on either the Prime Rate or London Interbank Offered Rate (LIBOR) plus an applicable margin, as defined in the credit agreement governing the facility. The maturity date of the facility is September 25, 2023. Borrowings and repayments under the facility were \$1.8 billion and \$1.0 billion, respectively, during the six months ended March 31, 2019. At March 31, 2019, there were \$750 million of borrowings outstanding at a 3.7% annual interest rate and \$128.0 million of letters of credit issued under the revolving credit facility.

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The Company's revolving credit facility imposes restrictions on its operations and activities, including requiring the maintenance of a maximum allowable ratio of debt to tangible net worth and a borrowing base restriction if the Company's ratio of debt to tangible net worth exceeds a certain level. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. The credit agreement governing the facility and the indenture governing the senior notes also impose restrictions on the creation of secured debt and liens. At March 31, 2019, the Company was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility and public debt obligations.

D.R. Horton has an automatically effective universal shelf registration statement filed with the SEC in August 2018, registering debt and equity securities that the Company may issue from time to time in amounts to be determined.

On March 1, 2019, the Company repaid \$500 million principal amount of its 3.75% senior notes at maturity.

Effective August 1, 2018, the Board of Directors authorized the repurchase of up to \$500 million of the Company's debt securities effective through September 30, 2019. All of the \$500 million authorization was remaining at March 31, 2019.

Forestar:

Forestar has a \$380 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$570 million, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to the greater of \$100 million and 50% of the revolving credit commitment. Borrowings under the revolving credit facility are subject to a borrowing base based on Forestar's book value of its real estate assets and unrestricted cash. The maturity date of the facility is August 16, 2021. The maturity date of the revolving credit facility may be extended by up to one year on up to three occasions, subject to the approval of lenders holding a majority of the commitments. At March 31, 2019, there were \$35 million of borrowings outstanding at a 4.8% annual interest rate and \$3.8 million of letters of credit issued under the revolving credit facility.

The revolving credit facility includes customary affirmative and negative covenants, events of default and financial covenants. The financial covenants require Forestar to maintain a minimum level of tangible net worth, a minimum level of liquidity and a maximum allowable leverage ratio. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. At March 31, 2019, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

Forestar also has a secured letter of credit agreement that requires it to deposit cash as collateral with the issuing bank. At March 31, 2019, letters of credit outstanding under the letter of credit facility totaled \$15.0 million, secured by \$15.7 million in cash, which is included in restricted cash in the consolidated balance sheet.

In April 2019, Forestar issued \$350 million principal amount of 8.0% senior notes pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The notes are due April 15, 2024, with interest payable semi-annually, and represent unsecured obligations of Forestar. The annual effective interest rate of these notes after giving effect to the amortization of financing costs is 8.5%. These notes may be redeemed prior to maturity, subject to certain limitations and premiums defined in the indenture agreement.

Forestar's revolving credit facility, its senior notes and its convertible senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the Company's homebuilding debt.

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Financial Services:

The Company's mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties upon receipt of funds from the counterparties. DHI Mortgage then has the right and obligation to repurchase the purchased loans upon their sale to third-party purchasers in the secondary market or within specified time frames from 45 to 60 days in accordance with the terms of the mortgage repurchase facility. In February 2019, the mortgage repurchase facility was amended to extend its maturity date to February 21, 2020. The total capacity of the facility is \$600 million; however, the capacity increases, without requiring additional commitments, to \$725 million for approximately 30 days at each quarter end and to \$800 million for approximately 45 days at fiscal year end. The capacity of the facility can also be increased to \$1.0 billion subject to the availability of additional commitments. Additional commitments were obtained to increase the capacity of the facility to \$800 million for approximately 30 days at the March 2019 quarter end.

As of March 31, 2019, \$784.5 million of mortgage loans held for sale with a collateral value of \$759.4 million were pledged under the mortgage repurchase facility. DHI Mortgage had an obligation of \$690.7 million outstanding under the mortgage repurchase facility at March 31, 2019 at a 4.2% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the Company's homebuilding debt. The facility contains financial covenants as to the mortgage subsidiary's minimum required tangible net worth, its maximum allowable ratio of debt to tangible net worth and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At March 31, 2019, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

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NOTE E – CAPITALIZED INTEREST

The Company capitalizes interest costs incurred to inventory during active development and construction (active inventory). Capitalized interest is charged to cost of sales as the related inventory is delivered to the buyer. During periods in which the Company's active inventory is lower than its debt level, a portion of the interest incurred is reflected as interest expense in the period incurred. During the first six months of fiscal 2019 and fiscal 2018, the Company's active inventory exceeded its debt level, and all interest incurred was capitalized to inventory.

The following table summarizes the Company's interest costs incurred, capitalized and expensed during the three and six months ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(In millions)			
Capitalized interest, beginning of period	\$ 168.8	\$ 170.3	\$ 162.7	\$ 167.9
Interest incurred (1)	35.0	31.8	66.7	62.8
Interest charged to cost of sales	(29.9)	(32.0)	(55.5)	(60.6)
Capitalized interest, end of period	\$ 173.9	\$ 170.1	\$ 173.9	\$ 170.1

- (1) Interest incurred included interest on the Company's mortgage repurchase facility of \$3.0 million and \$6.3 million in the three and six months ended March 31, 2019, respectively, and \$2.4 million and \$4.5 million in the same periods of fiscal 2018. Also included in the amounts is interest incurred by Forestar of \$1.5 million and \$2.8 million in the three and six months ended March 31, 2019, respectively, and \$1.3 million and \$1.4 million in the same periods of fiscal 2018.

NOTE F – MORTGAGE LOANS

Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. At March 31, 2019, mortgage loans held for sale had an aggregate carrying value of \$796.5 million and an aggregate outstanding principal balance of \$768.7 million. At September 30, 2018, mortgage loans held for sale had an aggregate carrying value of \$796.4 million and an aggregate outstanding principal balance of \$776.1 million. During the six months ended March 31, 2019 and 2018, mortgage loans originated totaled \$3.6 billion and \$3.4 billion, respectively, and mortgage loans sold totaled \$3.6 billion and \$3.3 billion, respectively. The Company had gains on sales of loans and servicing rights of \$73.1 million and \$132.9 million during the three and six months ended March 31, 2019, respectively, compared to \$68.8 million and \$125.7 million in the prior year periods. Net gains on sales of loans and servicing rights are included in revenues in the consolidated statements of operations. Approximately 93% of the mortgage loans sold by DHI Mortgage during the six months ended March 31, 2019 were sold to four major financial entities, the largest of which purchased 32% of the total loans sold.

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NOTE G – INCOME TAXES

The Company's income tax expense for the three and six months ended March 31, 2019 was \$108.4 million and \$197.4 million, respectively, compared to \$94.0 million and \$296.4 million in the prior year periods. The effective tax rate was 23.4% and 23.5% for the three and six months ended March 31, 2019, respectively, compared to 21.1% and 35.5% in the prior year periods. The higher effective tax rate for the six months ended March 31, 2018 was primarily due to the remeasurement of the Company's deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act (Tax Act), which was enacted into law on December 22, 2017. The effective tax rates for all periods include an expense for state income taxes, reduced by tax benefits related to stock-based compensation.

The Tax Act reduced the federal corporate tax rate from 35% to 21% for all corporations effective January 1, 2018. For fiscal year companies, the change in law required the application of a blended tax rate in the year of change, which for the Company was 24.5% for the fiscal year ended September 30, 2018. For the fiscal year ending September 30, 2019 and thereafter, the applicable statutory federal tax rate is 21%. The Tax Act also repealed the domestic production activities deduction effective for the Company for fiscal 2019.

The Company's deferred tax assets, net of deferred tax liabilities, were \$188.9 million at March 31, 2019 compared to \$211.7 million at September 30, 2018. The Company has a valuation allowance related to state deferred tax assets for net operating loss (NOL) carryforwards of \$17.0 million at March 31, 2019 and \$17.7 million at September 30, 2018. The Company will continue to evaluate both the positive and negative evidence in determining the need for a valuation allowance with respect to the remaining state NOL carryforwards. Any reversal of the valuation allowance in future periods will impact the Company's effective tax rate.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on the Company's consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of the Company's deferred tax assets.

NOTE H – EARNINGS PER SHARE

The following table sets forth the numerators and denominators used in the computation of basic and diluted earnings per share.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
(In millions)				
Numerator:				
Net income attributable to D.R. Horton, Inc.	\$ 351.3	\$ 351.0	\$ 638.4	\$ 540.3
Denominator:				
Denominator for basic earnings per share — weighted average common shares	373.3	376.8	374.2	376.3
Effect of dilutive securities:				
Employee stock awards	4.4	7.1	4.7	7.5
Denominator for diluted earnings per share — adjusted weighted average common shares	377.7	383.9	378.9	383.8
Basic net income per common share attributable to D.R. Horton, Inc.	\$ 0.94	\$ 0.93	\$ 1.71	\$ 1.44
Diluted net income per common share attributable to D.R. Horton, Inc.	\$ 0.93	\$ 0.91	\$ 1.68	\$ 1.41

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NOTE I – STOCKHOLDERS' EQUITY

D.R. Horton has an automatically effective universal shelf registration statement, filed with the SEC in August 2018, registering debt and equity securities that it may issue from time to time in amounts to be determined. Forestar also has an effective shelf registration statement filed with the SEC in September 2018, registering \$500 million of equity securities.

Effective August 1, 2018, the Board of Directors authorized the repurchase of up to \$400 million of the Company's common stock effective through September 30, 2019. During the six months ended March 31, 2019, the Company repurchased 6.1 million shares of its common stock for \$216.2 million. The Company's remaining authorization at March 31, 2019 was \$159.3 million.

During the three months ended March 31, 2019, the Board of Directors approved a quarterly cash dividend of \$0.15 per common share, which was paid on February 25, 2019 to stockholders of record on February 11, 2019. In April 2019, the Board of Directors approved a quarterly cash dividend of \$0.15 per common share, payable on May 28, 2019 to stockholders of record on May 13, 2019. Cash dividends of \$0.125 per common share were approved and paid in each quarter of fiscal 2018.

NOTE J – EMPLOYEE BENEFIT PLANS

Restricted Stock Units (RSUs)

The Company's Stock Incentive Plan provides for the granting of stock options and restricted stock units to executive officers, other key employees and non-management directors. Restricted stock unit awards may be based on performance (performance-based) or on service over a requisite time period (time-based). Performance-based and time-based RSU equity awards represent the contingent right to receive one share of the Company's common stock per RSU if the vesting conditions and/or performance criteria are satisfied. The RSUs have no dividend or voting rights until vested.

In November 2018, a total of 360,000 performance-based RSU equity awards were granted to the Company's Chairman and executive officers. These awards vest at the end of a three-year performance period ending September 30, 2021. The number of units that ultimately vest depends on the Company's relative position as compared to its peers in achieving certain performance criteria and can range from 10% to 200% of the number of units granted. The performance criteria are total shareholder return; return on investment; selling, general and administrative expense containment; and gross profit. The grant date fair value of these equity awards was \$37.75 per unit. Compensation expense related to these grants was \$1.4 million and \$3.1 million in the three and six months ended March 31, 2019, respectively, based on the Company's performance against its peer group, the elapsed portion of the performance period and the grant date fair value of the award.

During the six months ended March 31, 2019, a total of 1.8 million time-based RSUs were granted to approximately 900 recipients, including the Company's executive officers, other key employees and non-management directors. The weighted average grant date fair value of these equity awards was \$33.75 per unit, and they vest annually in equal installments over periods of three to five years. Compensation expense related to these grants was \$3.0 million and \$7.4 million in the three and six months ended March 31, 2019, respectively, of which \$3.5 million in the six month period related to expense recognized for employees that were retirement eligible on the date of grant.

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NOTE K – COMMITMENTS AND CONTINGENCIES

Warranty Claims

The Company provides its homebuyers with a ten-year limited warranty for major defects in structural elements such as framing components and foundation systems, a two-year limited warranty on major mechanical systems, and a one-year limited warranty on other construction components. The Company's warranty liability is based upon historical warranty cost experience in each market in which it operates and is adjusted to reflect qualitative risks associated with the types of homes built and the geographic areas in which they are built.

Changes in the Company's warranty liability during the three and six months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(In millions)			
Warranty liability, beginning of period	\$ 205.6	\$ 149.4	\$ 202.0	\$ 143.7
Warranties issued	21.0	19.3	38.9	35.8
Changes in liability for pre-existing warranties	6.0	13.7	11.5	20.5
Settlements made	(18.7)	(19.8)	(38.5)	(37.4)
Warranty liability, end of period	<u>\$ 213.9</u>	<u>\$ 162.6</u>	<u>\$ 213.9</u>	<u>\$ 162.6</u>

Legal Claims and Insurance

The Company is named as a defendant in various claims, complaints and other legal actions in the ordinary course of business. At any point in time, the Company is managing several hundred individual claims related to construction defect matters, personal injury claims, employment matters, land development issues, contract disputes and other matters. The Company has established reserves for these contingencies based on the estimated costs of pending claims and the estimated costs of anticipated future claims related to previously closed homes. The estimated liabilities for these contingencies were \$419.1 million and \$408.1 million at March 31, 2019 and September 30, 2018, respectively, and are included in accrued expenses and other liabilities in the consolidated balance sheets. Approximately 99% of these reserves related to construction defect matters at both March 31, 2019 and September 30, 2018. Expenses related to the Company's legal contingencies were \$14.6 million and \$39.0 million in the six months ended March 31, 2019 and 2018, respectively.

The Company's reserves for legal claims increased from \$408.1 million at September 30, 2018 to \$419.1 million at March 31, 2019. Changes in the Company's legal claims reserves during the six months ended March 31, 2019 and 2018 were as follows:

	Six Months Ended March 31,	
	2019	2018
	(In millions)	
Reserves for legal claims, beginning of period	\$ 408.1	\$ 420.6
Increase in reserves	23.3	41.4
Payments	(12.3)	(18.4)
Reserves for legal claims, end of period	<u>\$ 419.1</u>	<u>\$ 443.6</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
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The Company estimates and records receivables under its applicable insurance policies related to its estimated contingencies for known claims and anticipated future construction defect claims on previously closed homes and other legal claims and lawsuits incurred in the ordinary course of business when recovery is probable. Additionally, the Company may have the ability to recover a portion of its losses from its subcontractors and their insurance carriers when the Company has been named as an additional insured on their insurance policies. The Company's receivables related to its estimates of insurance recoveries from estimated losses for pending legal claims and anticipated future claims related to previously closed homes totaled \$56.9 million, \$54.6 million and \$69.0 million at March 31, 2019, September 30, 2018 and March 31, 2018, respectively, and are included in other assets in the consolidated balance sheets.

The estimation of losses related to these reserves and the related estimates of recoveries from insurance policies are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to the Company's markets and the types of products built, claim frequency, claim settlement costs and patterns, insurance industry practices and legal interpretations, among others. Due to the high degree of judgment required in establishing reserves for these contingencies, actual future costs and recoveries from insurance could differ significantly from current estimated amounts, and it is not possible for the Company to make a reasonable estimate of the possible loss or range of loss in excess of its reserves.

Land and Lot Purchase Contracts

The Company enters into land and lot purchase contracts to acquire land or lots for the construction of homes. Under these contracts, the Company will fund a stated deposit in consideration for the right, but not the obligation, to purchase land or lots at a future point in time with predetermined terms. Under the terms of many of the purchase contracts, the deposits are not refundable in the event the Company elects to terminate the contract. Land and lot purchase contract deposits are included in other assets in the consolidated balance sheets.

At March 31, 2019, the Company's homebuilding segment had total deposits of \$461.0 million, consisting of cash deposits of \$457.9 million and promissory notes and letters of credit of \$3.1 million, related to contracts to purchase land and lots with a total remaining purchase price of approximately \$7.4 billion. The majority of land and lots under contract are currently expected to be purchased within three years. Of these amounts, \$76.5 million of the deposits related to contracts with Forestar to purchase land and lots with a remaining purchase price of \$895.8 million. A limited number of the homebuilding land and lot purchase contracts at March 31, 2019, representing \$96.8 million of remaining purchase price, were subject to specific performance provisions that may require the Company to purchase the land or lots upon the land sellers meeting their respective contractual obligations. Of the \$96.8 million remaining purchase price subject to specific performance provisions, \$50.9 million related to contracts between the homebuilding segment and Forestar.

During the three and six months ended March 31, 2019, Forestar reimbursed the Company's homebuilding segment \$4.7 million and \$16.8 million, respectively, for previously paid earnest money and \$0.7 million and \$3.7 million, respectively, for pre-acquisition and other due diligence costs related to land purchase contracts whereby the homebuilding segment assigned its rights under contract to Forestar. During the three and six months ended March 31, 2018, Forestar reimbursed the Company's homebuilding segment \$11.8 million and \$14.0 million, respectively, for previously paid earnest money and \$5.9 million and \$8.2 million, respectively, for pre-acquisition and other due diligence costs.

Other Commitments

At March 31, 2019, the Company had outstanding surety bonds of \$1.6 billion and letters of credit of \$148.3 million to secure performance under various contracts. Of the total letters of credit, \$128.0 million were issued under the homebuilding revolving credit facility and \$3.8 million were issued under Forestar's revolving credit facility. The remaining \$16.5 million of letters of credit were issued under secured letter of credit agreements, of which \$1.5 million related to homebuilding operations and \$15.0 million related to Forestar. These agreements require the deposit of cash as collateral with the issuing banks, which is included in restricted cash in the consolidated balance sheets.

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NOTE L – OTHER ASSETS, ACCRUED EXPENSES AND OTHER LIABILITIES

The Company's other assets at March 31, 2019 and September 30, 2018 were as follows:

	March 31, 2019	September 30, 2018
(In millions)		
Earnest money and refundable deposits	\$ 477.0	\$ 445.2
Insurance receivables	56.9	54.6
Other receivables	79.4	81.7
Prepaid assets	30.9	36.9
Rental properties	33.9	39.2
Contract assets - insurance agency commissions	34.4	—
Other	73.2	55.3
	<u>\$ 785.7</u>	<u>\$ 712.9</u>

The Company's accrued expenses and other liabilities at March 31, 2019 and September 30, 2018 were as follows:

	March 31, 2019	September 30, 2018
(In millions)		
Reserves for legal claims	\$ 419.1	\$ 408.1
Employee compensation and related liabilities	244.5	252.5
Warranty liability	213.9	202.0
Accrued interest	12.9	14.8
Federal and state income tax liabilities	83.8	35.2
Inventory related accruals	42.6	45.5
Customer deposits	62.5	58.1
Accrued property taxes	20.5	38.0
Other	92.3	73.3
	<u>\$ 1,192.1</u>	<u>\$ 1,127.5</u>

D.R. HORTON, INC. AND SUBSIDIARIES
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NOTE M – FAIR VALUE MEASUREMENTS

The following tables summarize the Company’s assets and liabilities measured at fair value on a recurring basis at March 31, 2019 and September 30, 2018 . Changes in the fair value of the Level 3 assets during the six months ended March 31, 2019 and 2018 were not material.

		Fair Value at March 31, 2019			
		Level 1	Level 2	Level 3	Total
		(In millions)			
Debt securities collateralized by residential real estate	Other assets	\$ —	\$ —	\$ 3.9	\$ 3.9
Mortgage loans held for sale (a)	Mortgage loans held for sale	—	784.4	8.4	792.8
Derivatives not designated as hedging instruments (b):					
Interest rate lock commitments	Other assets	—	19.8	—	19.8
Forward sales of mortgage-backed securities	Other liabilities	—	(8.0)	—	(8.0)
Best-efforts and mandatory commitments	Other liabilities	—	(0.8)	—	(0.8)

		Fair Value at September 30, 2018			
		Level 1	Level 2	Level 3	Total
		(In millions)			
Debt securities collateralized by residential real estate	Other assets	\$ —	\$ —	\$ 3.9	\$ 3.9
Mortgage loans held for sale (a)	Mortgage loans held for sale	—	784.6	7.8	792.4
Derivatives not designated as hedging instruments (b):					
Interest rate lock commitments	Other assets	—	10.5	—	10.5
Forward sales of mortgage-backed securities	Other assets	—	3.3	—	3.3
Best-efforts and mandatory commitments	Other assets	—	0.2	—	0.2

- (a) The Company typically elects the fair value option upon origination for mortgage loans held for sale. Interest income earned on mortgage loans held for sale is based on contractual interest rates and included in other income. Mortgage loans held for sale valued using Level 3 inputs at March 31, 2019 and September 30, 2018 include \$8.4 million and \$7.8 million , respectively, of loans for which the Company elected the fair value option upon origination and did not sell into the secondary market. The fair value of these mortgage loans held for sale is generally calculated considering pricing in the secondary market and adjusted for the value of the underlying collateral, including interest rate risk, liquidity risk and prepayment risk. The Company plans to sell these loans as market conditions permit.
- (b) Fair value measurements of these derivatives represent changes in fair value, as calculated by reference to quoted prices for similar assets, and are reflected in the balance sheet as other assets or accrued expenses and other liabilities. Changes in the fair value of these derivatives are included in revenues in the consolidated statements of operations.

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The following table summarizes the Company's assets measured at fair value on a nonrecurring basis at March 31, 2019 and September 30, 2018 :

	Balance Sheet Location	Fair Value at March 31, 2019		Fair Value at September 30, 2018	
		Level 2	Level 3	Level 2	Level 3
(In millions)					
Inventory held and used (a) (b)	Inventories	\$ —	\$ 20.8	\$ —	\$ 4.4
Inventory available for sale (a) (c)	Inventories	—	—	—	1.4
Mortgage loans held for sale (a) (d)	Mortgage loans held for sale	—	0.8	—	2.9
Other mortgage loans (a) (e)	Other assets	—	1.8	—	1.0

- (a) The fair values included in the table above represent only those assets whose carrying values were adjusted to fair value as a result of impairment in the respective period and were held at the end of the period.
- (b) In performing its impairment analysis of communities, discount rates ranging from 12% to 16% were used in the periods presented.
- (c) The fair value of inventory available for sale was determined based on recent offers received from outside third parties, comparable sales or actual contracts.
- (d) These mortgage loans have some degree of impairment affecting their marketability and are valued at the lower of carrying value or fair value. When available, quoted prices in the secondary market are used to determine fair value (Level 2); otherwise, a cash flow valuation model is used to determine fair value (Level 3).
- (e) The fair value of other mortgage loans was determined based on the value of the underlying collateral.

For the financial assets and liabilities that the Company does not reflect at fair value, the following tables present both their respective carrying value and fair value at March 31, 2019 and September 30, 2018 :

	Carrying Value	Fair Value at March 31, 2019			Total
		Level 1	Level 2	Level 3	
(In millions)					
Cash and cash equivalents (a)	\$ 698.8	\$ 698.8	\$ —	\$ —	\$ 698.8
Restricted cash (a)	32.4	32.4	—	—	32.4
Notes payable (b) (c)	3,622.4	—	2,124.2	1,559.7	3,683.9

	Carrying Value	Fair Value at September 30, 2018			Total
		Level 1	Level 2	Level 3	
(In millions)					
Cash and cash equivalents (a)	\$ 1,473.1	\$ 1,473.1	\$ —	\$ —	\$ 1,473.1
Restricted cash (a)	32.9	32.9	—	—	32.9
Notes payable (b) (c)	3,203.5	—	2,602.6	642.2	3,244.8

- (a) The fair values of cash, cash equivalents and restricted cash approximate their carrying values due to their short-term nature and are classified as Level 1 within the fair value hierarchy.
- (b) The fair value of the senior notes is determined based on quoted prices, which is classified as Level 2 within the fair value hierarchy.
- (c) The fair values of other secured notes and borrowings on the revolving credit facilities and the mortgage repurchase facility approximate carrying value due to their short-term nature or floating interest rate terms, as applicable, and are classified as Level 3 within the fair value hierarchy.

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March 31, 2019

NOTE N – RELATED PARTY TRANSACTIONS

In March 2019, the Company assigned its rights under a land purchase contract to R&R Riverview LLC (R&R), an entity owned by Ryan Horton and Reagan Horton, the adult sons of Donald Horton, the Company's Chairman. In March 2019, R&R exercised its rights under the purchase contract and purchased 119 acres of undeveloped land in Arizona for \$77.5 million. In connection with the transaction, Donald Horton loaned R&R \$77.5 million at a 2.55% annual interest rate and obtained a security interest in the land. Concurrent with the contract assignment to R&R, the Company entered into a land purchase contract with R&R to purchase the 119 acres for R&R's cost plus an annualized return of 16%. Based on the terms of the contract, the Company will purchase the land in two phases. The first purchase is expected in October 2019. The Company has determined R&R is a variable interest entity, the Company has the power to control the activities that most significantly impact the entity's economic performance, and the Company is the primary beneficiary. Accordingly, the Company consolidated the variable interest entity in its consolidated financial statements by increasing inventory and notes payable at March 31, 2019 by \$77.5 million.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION

All of the Company's homebuilding senior notes and the homebuilding revolving credit facility are fully and unconditionally guaranteed, on a joint and several basis, by D.R. Horton, Inc. and other subsidiaries (Guarantor Subsidiaries). Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by the Company. The Company's subsidiaries associated with the Forestar land development operation, the financial services operations and certain other subsidiaries do not guarantee the Company's homebuilding senior notes or the homebuilding revolving credit facility (collectively, Non-Guarantor Subsidiaries). In lieu of providing separate financial statements for the Guarantor Subsidiaries, consolidating condensed financial statements are presented below. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that they are not material to investors.

The guarantees by a Guarantor Subsidiary will be automatically and unconditionally released and discharged upon: (1) the sale or other disposition of its common stock whereby it is no longer a subsidiary of the Company; (2) the sale or other disposition of all or substantially all of its assets (other than to the Company or another Guarantor); (3) its merger or consolidation with an entity other than the Company or another Guarantor; or (4) its ceasing to guarantee any of the Company's publicly traded debt securities and ceasing to guarantee any of the Company's obligations under the homebuilding revolving credit facility.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Balance Sheet
March 31, 2019

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
(In millions)					
ASSETS					
Cash and cash equivalents	\$ 405.4	\$ 104.3	\$ 189.1	\$ —	\$ 698.8
Restricted cash	7.6	1.8	23.0	—	32.4
Investment in subsidiaries	6,739.8	—	—	(6,739.8)	—
Inventories	4,458.3	6,527.4	955.2	(20.6)	11,920.3
Mortgage loans held for sale	—	—	796.5	—	796.5
Deferred income taxes, net	52.1	92.3	24.6	2.9	171.9
Property and equipment, net	112.2	76.8	253.3	(4.4)	437.9
Other assets	328.7	402.5	129.6	(75.1)	785.7
Goodwill	—	134.3	29.2	—	163.5
Intercompany receivables	596.9	—	—	(596.9)	—
Total Assets	\$ 12,701.0	\$ 7,339.4	\$ 2,400.5	\$ (7,433.9)	\$ 15,007.0
LIABILITIES & EQUITY					
Accounts payable and other liabilities	\$ 625.2	\$ 1,034.1	\$ 272.1	\$ (80.8)	\$ 1,850.6
Intercompany payables	—	298.9	298.0	(596.9)	—
Notes payable	2,697.8	1.9	922.7	—	3,622.4
Total Liabilities	3,323.0	1,334.9	1,492.8	(677.7)	5,473.0
Stockholders' equity	9,378.0	6,004.5	735.7	(6,757.9)	9,360.3
Noncontrolling interests	—	—	172.0	1.7	173.7
Total Equity	9,378.0	6,004.5	907.7	(6,756.2)	9,534.0
Total Liabilities & Equity	\$ 12,701.0	\$ 7,339.4	\$ 2,400.5	\$ (7,433.9)	\$ 15,007.0

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Balance Sheet
September 30, 2018

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
(In millions)					
ASSETS					
Cash and cash equivalents	\$ 908.1	\$ 158.7	\$ 406.3	\$ —	\$ 1,473.1
Restricted cash	6.6	2.0	24.3	—	32.9
Investment in subsidiaries	6,344.9	—	—	(6,344.9)	—
Inventories	4,037.1	5,824.1	545.0	(11.2)	10,395.0
Mortgage loans held for sale	—	—	796.4	—	796.4
Deferred income taxes, net	69.2	105.0	17.3	2.5	194.0
Property and equipment, net	111.2	66.1	230.7	(6.9)	401.1
Other assets	306.6	361.3	90.2	(45.2)	712.9
Goodwill	—	80.0	29.2	—	109.2
Intercompany receivables	246.2	27.3	—	(273.5)	—
Total Assets	\$ 12,029.9	\$ 6,624.5	\$ 2,139.4	\$ (6,679.2)	\$ 14,114.6
LIABILITIES & EQUITY					
Accounts payable and other liabilities	\$ 590.8	\$ 1,000.4	\$ 210.1	\$ (49.1)	\$ 1,752.2
Intercompany payables	—	—	273.5	(273.5)	—
Notes payable	2,443.9	2.1	757.5	—	3,203.5
Total Liabilities	3,034.7	1,002.5	1,241.1	(322.6)	4,955.7
Stockholders' equity	8,995.2	5,622.0	722.8	(6,355.6)	8,984.4
Noncontrolling interests	—	—	175.5	(1.0)	174.5
Total Equity	8,995.2	5,622.0	898.3	(6,356.6)	9,158.9
Total Liabilities & Equity	\$ 12,029.9	\$ 6,624.5	\$ 2,139.4	\$ (6,679.2)	\$ 14,114.6

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Three Months Ended March 31, 2019

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Revenues	\$ 1,575.2	\$ 2,419.7	\$ 173.5	\$ (39.7)	\$ 4,128.7
Cost of sales	1,249.8	1,989.5	52.4	(35.0)	3,256.7
Selling, general and administrative expense	193.3	164.9	86.0	—	444.2
Gain on sale of assets	—	—	(26.8)	(2.5)	(29.3)
Other (income) expense	(1.1)	(0.4)	(4.2)	—	(5.7)
Income before income taxes	133.2	265.7	66.1	(2.2)	462.8
Income tax expense	31.4	62.3	15.2	(0.5)	108.4
Equity in net income of subsidiaries, net of tax	253.5	—	—	(253.5)	—
Net income	355.3	203.4	50.9	(255.2)	354.4
Net income attributable to noncontrolling interests	—	—	0.6	2.5	3.1
Net income attributable to D.R. Horton, Inc.	\$ 355.3	\$ 203.4	\$ 50.3	\$ (257.7)	\$ 351.3

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Six Months Ended March 31, 2019

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Revenues	\$ 2,910.9	\$ 4,501.4	\$ 304.1	\$ (68.7)	\$ 7,647.7
Cost of sales	2,307.0	3,670.9	90.4	(60.5)	6,007.8
Selling, general and administrative expense	351.2	330.8	165.0	—	847.0
Gain on sale of assets	(2.0)	—	(26.8)	(2.5)	(31.3)
Other (income) expense	(2.0)	(0.8)	(11.5)	—	(14.3)
Income before income taxes	256.7	500.5	87.0	(5.7)	838.5
Income tax expense	60.6	118.1	20.0	(1.3)	197.4
Equity in net income of subsidiaries, net of tax	449.4	—	—	(449.4)	—
Net income	645.5	382.4	67.0	(453.8)	641.1
Net income attributable to noncontrolling interests	—	—	—	2.7	2.7
Net income attributable to D.R. Horton, Inc.	\$ 645.5	\$ 382.4	\$ 67.0	\$ (456.5)	\$ 638.4

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Three Months Ended March 31, 2018

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Revenues	\$ 1,288.0	\$ 2,402.7	\$ 117.5	\$ (13.5)	\$ 3,794.7
Cost of sales	1,026.2	1,926.9	19.4	(10.9)	2,961.6
Selling, general and administrative expense	156.9	164.8	79.2	—	400.9
Gain on sale of assets	—	—	(1.1)	—	(1.1)
Other (income) expense	(1.7)	(0.7)	(9.1)	—	(11.5)
Income before income taxes	106.6	311.7	29.1	(2.6)	444.8
Income tax expense	20.7	67.4	5.9	—	94.0
Equity in net income of subsidiaries, net of tax	267.5	—	—	(267.5)	—
Net income	353.4	244.3	23.2	(270.1)	350.8
Net loss attributable to noncontrolling interests	—	—	(0.2)	—	(0.2)
Net income attributable to D.R. Horton, Inc.	\$ 353.4	\$ 244.3	\$ 23.4	\$ (270.1)	\$ 351.0

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Six Months Ended March 31, 2018

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Revenues	\$ 2,451.9	\$ 4,455.1	\$ 234.1	\$ (13.5)	\$ 7,127.6
Cost of sales	1,941.6	3,567.0	44.1	(10.9)	5,541.8
Selling, general and administrative expense	309.1	316.4	159.6	—	785.1
Gain on sale of assets	—	—	(14.5)	—	(14.5)
Other (income) expense	(2.1)	(0.7)	(18.1)	—	(20.9)
Income before income taxes	203.3	572.4	63.0	(2.6)	836.1
Income tax expense	71.8	205.3	19.3	—	296.4
Equity in net income of subsidiaries, net of tax	410.8	—	—	(410.8)	—
Net income	\$ 542.3	\$ 367.1	\$ 43.7	\$ (413.4)	\$ 539.7
Net loss attributable to noncontrolling interests	—	—	(0.6)	—	(0.6)
Net income attributable to D.R. Horton, Inc.	\$ 542.3	\$ 367.1	\$ 44.3	\$ (413.4)	\$ 540.3

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Six Months Ended March 31, 2019

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
(In millions)					
OPERATING ACTIVITIES					
Net cash used in operating activities	\$ (76.5)	\$ (61.5)	\$ (245.0)	\$ (78.7)	\$ (461.7)
INVESTING ACTIVITIES					
Expenditures for property and equipment	(16.7)	(16.9)	(36.2)	—	(69.8)
Proceeds from sale of assets	10.4	—	73.4	—	83.8
Expenditures related to multi-family rental properties	—	—	(28.3)	—	(28.3)
Return of investment in unconsolidated entities	—	—	4.4	—	4.4
Net principal increase of other mortgage loans and real estate owned	—	—	(1.6)	—	(1.6)
Intercompany advances	(42.4)	—	—	42.4	—
Payments related to business acquisitions	(301.3)	—	(8.3)	—	(309.6)
Net cash (used in) provided by investing activities	(350.0)	(16.9)	3.4	42.4	(321.1)
FINANCING ACTIVITIES					
Proceeds from notes payable	1,775.0	—	40.0	—	1,815.0
Repayment of notes payable	(1,524.9)	(1.1)	(5.0)	—	(1,531.0)
Advances on mortgage repurchase facility, net	—	—	53.0	—	53.0
Intercompany advances	—	24.9	17.5	(42.4)	—
Proceeds from stock associated with certain employee benefit plans	22.3	—	—	—	22.3
Cash paid for shares withheld for taxes	(19.5)	—	—	—	(19.5)
Cash dividends paid	(111.9)	—	(78.7)	78.7	(111.9)
Repurchases of common stock	(216.2)	—	—	—	(216.2)
Distributions to noncontrolling interests, net	—	—	(3.7)	—	(3.7)
Net cash (used in) provided by financing activities	(75.2)	23.8	23.1	36.3	8.0
Decrease in cash, cash equivalents and restricted cash	(501.7)	(54.6)	(218.5)	—	(774.8)
Cash, cash equivalents and restricted cash at beginning of period	914.7	160.7	430.6	—	1,506.0
Cash, cash equivalents and restricted cash at end of period	\$ 413.0	\$ 106.1	\$ 212.1	\$ —	\$ 731.2

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Six Months Ended March 31, 2018

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
(In millions)					
OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	\$ (147.3)	\$ 269.9	\$ (184.4)	\$ (37.0)	\$ (98.8)
INVESTING ACTIVITIES					
Expenditures for property and equipment	(21.4)	(15.0)	(3.1)	—	(39.5)
Proceeds from sale of assets	—	—	253.4	—	253.4
Expenditures related to multi-family rental properties	—	—	(44.5)	5.0	(39.5)
Return of investment in unconsolidated entities	—	—	15.1	—	15.1
Intercompany advances	266.3	—	—	(266.3)	—
Payments related to business acquisitions, net of cash acquired	(560.0)	—	401.9	—	(158.1)
Net cash (used in) provided by investing activities	(315.1)	(15.0)	622.8	(261.3)	31.4
FINANCING ACTIVITIES					
Proceeds from notes payable	1,912.3	—	1.3	—	1,913.6
Repayment of notes payable	(1,740.2)	(2.3)	(10.0)	—	(1,752.5)
Advances on mortgage repurchase facility, net	—	—	69.8	—	69.8
Intercompany advances	—	(291.0)	24.7	266.3	—
Proceeds from stock associated with certain employee benefit plans	32.7	—	—	—	32.7
Cash paid for shares withheld for taxes	(10.3)	—	—	—	(10.3)
Cash dividends paid	(94.1)	—	(32.0)	32.0	(94.1)
Repurchases of common stock	(47.9)	—	—	—	(47.9)
Distributions to noncontrolling interests, net	—	—	(2.0)	—	(2.0)
Net cash provided by (used in) financing activities	52.5	(293.3)	51.8	298.3	109.3
(Decrease) increase in cash, cash equivalents and restricted cash	(409.9)	(38.4)	490.2	—	41.9
Cash, cash equivalents and restricted cash at beginning of period	788.7	156.0	79.6	—	1,024.3
Cash, cash equivalents and restricted cash at end of period	\$ 378.8	\$ 117.6	\$ 569.8	\$ —	\$ 1,066.2

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this quarterly report and with our annual report on Form 10-K for the fiscal year ended September 30, 2018 . Some of the information contained in this discussion and analysis constitutes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those described in the "Forward-Looking Statements" section following this discussion.

BUSINESS

D.R. Horton, Inc. is the largest homebuilding company in the United States as measured by number of homes closed. We construct and sell homes through our operating divisions in 84 markets in 29 states, primarily under the names of D.R. Horton, *America's Builder*; Emerald Homes; Express Homes and Freedom Homes. Unless the context otherwise requires, the terms "D.R. Horton," the "Company," "we" and "our" used herein refer to D.R. Horton, Inc., a Delaware corporation, and its predecessors and subsidiaries.

Our business operations consist of homebuilding, a majority-owned residential lot development company, financial services and other activities. Our homebuilding operations primarily include the construction and sale of single-family homes with sales prices generally ranging from \$100,000 to more than \$1,000,000 , with an average closing price of \$295,900 during the six months ended March 31, 2019 . Approximately 91% of our home sales revenues in the six months ended March 31, 2019 were generated from the sale of single-family detached homes, with the remainder from the sale of attached homes, such as townhomes, duplexes and triplexes.

During fiscal 2018, we acquired 75% of the outstanding shares of Forestar Group Inc. (Forestar), for \$558.3 million in cash. Forestar is a publicly traded residential lot development company listed on the New York Stock Exchange under the ticker symbol "FOR." The acquisition is a component of our strategy to expand relationships with land developers and increase the optioned portion of our homebuilding land and lot position to enhance operational efficiency and returns.

Our financial services operations provide mortgage financing and title agency services to homebuyers in many of our homebuilding markets. DHI Mortgage, our 100% owned subsidiary, provides mortgage financing services primarily to our homebuyers and generally sells the mortgages it originates and the related servicing rights to third-party purchasers. DHI Mortgage originates loans in accordance with purchaser guidelines and sells substantially all of its mortgage production shortly after origination. Our 100% owned subsidiary title companies serve as title insurance agents by providing title insurance policies, examination and closing services, primarily to our homebuyers.

In addition to our homebuilding, Forestar and financial services operations, we have subsidiaries that engage in other business activities. These subsidiaries conduct insurance-related operations, construct and own income-producing rental properties, own non-residential real estate including ranch land and improvements and own and operate oil and gas related assets. One of these subsidiaries, DHI Communities, constructs multi-family rental properties and has four projects under active construction and two projects that are substantially complete at March 31, 2019 . In January 2019 , DHI Communities sold its first multi-family rental property for \$73.4 million and recorded a gain on the sale of \$29.3 million , which is included in our consolidated statements of operations for the three and six months ended March 31, 2019 . At March 31, 2019 and September 30, 2018 , our consolidated balance sheets included \$170.2 million and \$173.2 million , respectively, of assets related to DHI Communities. The combined assets of all of our subsidiaries engaged in other business activities totaled \$263.3 million and \$198.9 million at March 31, 2019 and September 30, 2018 , respectively, and the combined pre-tax income of these subsidiaries was \$27.5 million and \$28.5 million in the three and six months ended March 31, 2019 , respectively, compared to pre-tax losses of \$2.2 million and \$3.3 million in the same periods of fiscal 2018 . The operating results of these subsidiaries are immaterial for separate reporting and therefore are grouped together and presented as other.

OVERVIEW

Sales prices for both new and resale homes have increased across most of our markets over the past several years, which has generally reduced housing affordability. During fiscal 2018, interest rates on mortgage loans increased, which further impacted affordability. These conditions have resulted in some recent moderation of demand for new homes in late fiscal 2018 and early fiscal 2019, with variations across our markets. However, we continue to see solid economic fundamentals and a limited supply of homes at affordable prices across most of our markets.

During the six months ended March 31, 2019, our number and value of net sales orders increased 5% and 3%, respectively, compared to the prior year period. During the six months ended March 31, 2018, our number of homes closed and home sales revenues both increased 8% compared to the prior year period. Our pre-tax income was \$838.5 million in the current year six month period compared to \$836.1 million in the prior year period, and our pre-tax operating margin was 11.0% compared to 11.7%. We are monitoring our sales pace, pricing and homes in inventory in each of our communities, and we will adjust sales pace, home pricing and incentives based on local housing market conditions.

We believe our business is well positioned with a broad geographic footprint, affordable product offerings, a balanced supply of finished lots, land and homes, a strong balance sheet and liquidity and experienced personnel across our operating markets. We remain focused on growing our revenues and profitability, generating positive annual cash flows from operations and managing our product offerings, pricing, sales pace and inventory levels to optimize the return on our inventory investments.

Within our homebuilding land and lot portfolio, our lots controlled under purchase contracts represent 62% of the lots owned and controlled at March 31, 2019 compared to 57% at September 30, 2018 and 52% at March 31, 2018. Forestar's inventory growth is advancing our homebuilding strategy of increasing our access to optioned land and lots.

We believe that housing demand in our individual operating markets is tied closely to each market's economy. Therefore, we expect that housing market conditions will continue to vary across our markets. If the U.S. economy continues to grow, we expect to see solid housing demand, concentrated in markets where job growth is occurring and new home prices remain affordable relative to household incomes. The pace and sustainability of new home demand and our future results could be negatively affected by weakening economic conditions, decreases in the level of employment and housing demand, decreased home affordability, increases in mortgage interest rates or tightening of mortgage lending standards.

STRATEGY

Our operating strategy focuses on leveraging our financial and competitive position to increase the returns on our inventory investments and generate strong profitability and cash flows, while managing risk and maintaining financial flexibility to make opportunistic strategic investments. This strategy includes the following initiatives:

- Maintaining a strong cash balance and overall liquidity position and controlling our level of debt.
- Allocating and actively managing our inventory investments across our operating markets to diversify our geographic risk.
- Offering new home communities that appeal to a broad range of entry-level, move-up, active adult and luxury homebuyers based on consumer demand in each market.
- Modifying product offerings, sales pace, home prices and sales incentives as necessary in each of our markets to meet consumer demand and maintain affordability.
- Delivering high quality homes to our customers and a positive experience both during and after the sale.
- Managing our inventory of homes under construction relative to demand in each of our markets, including starting construction on unsold homes to capture new home demand and actively controlling the number of unsold, completed homes in inventory.
- Investing in land and land development in desirable markets, while controlling the level of land and lots we own in each of our markets relative to the local new home demand.
- Increasing the amount of land and finished lots controlled through purchase contracts by expanding relationships with land developers across the country and growing our majority-owned Forestar lot development operations.
- Opportunistically pursuing acquisitions to enhance our operations and improve returns.
- Controlling the cost of goods purchased from both vendors and subcontractors.
- Improving the efficiency of our land development, construction, sales and other key operational activities.
- Controlling our selling, general and administrative (SG&A) expense infrastructure to match production levels.

We believe our operating strategy, which has produced positive results in recent years, will allow us to maintain and improve our financial and competitive position and balance sheet strength. However, we cannot provide any assurances that the initiatives listed above will continue to be successful, and we may need to adjust components of our strategy to meet future market conditions.

KEY RESULTS

Key financial results as of and for the three months ended March 31, 2019 , as compared to the same period of 2018 , were as follows:

Homebuilding:

- Homebuilding revenues increased 8% to \$4.0 billion compared to \$3.7 billion .
- Homes closed increased 10% to 13,480 homes, and the average closing price of those homes was \$295,300 .
- Net sales orders increased 6% to 16,805 homes, and the value of net sales orders increased 4% to \$4.9 billion .
- Sales order backlog increased 7% to 16,890 homes, and the value of sales order backlog increased 3% to \$5.0 billion .
- Home sales gross margin was 19.3% compared to 20.8% .
- Homebuilding SG&A expense was 9.0% of homebuilding revenues compared to 8.8% .
- Homebuilding pre-tax income was \$400.4 million compared to \$416.0 million .
- Homebuilding pre-tax income was 10.0% of homebuilding revenues compared to 11.3% .
- Homebuilding cash and cash equivalents totaled \$557.3 million compared to \$1.1 billion and \$528.9 million at September 30, 2018 and March 31, 2018 , respectively.
- Homebuilding inventories totaled \$11.1 billion compared to \$9.9 billion and \$9.8 billion at September 30, 2018 and March 31, 2018 , respectively.
- Homes in inventory totaled 32,100 compared to 27,900 and 27,700 at September 30, 2018 and March 31, 2018 , respectively.
- Owned lots totaled 120,900 compared to 124,300 and 124,200 at September 30, 2018 and March 31, 2018 , respectively. Lots controlled through purchase contracts totaled 195,500 compared to 164,200 and 133,500 at September 30, 2018 and March 31, 2018 , respectively.
- Homebuilding debt was \$2.8 billion compared to \$2.4 billion and \$2.6 billion at September 30, 2018 and March 31, 2018 , respectively.
- Homebuilding debt to total capital was 22.9% compared to 21.4% at September 30, 2018 and 24.2% at March 31, 2018 .

Forestar:

- Forestar's revenues increased 189% to \$65.4 million compared to \$22.6 million . Revenues in the current and prior year quarters included \$39.7 million and \$8.5 million , respectively, of revenue from land and lot sales to our homebuilding segment.
- Forestar's pre-tax income increased 257% to \$16.4 million compared to \$4.6 million .
- Owned and controlled lots totaled 31,400 compared to 20,100 at September 30, 2018 . Of these lots, 21,700 and 13,600 , respectively, were under contract to sell to or subject to a right of first offer with D.R. Horton.
- Forestar's cash and cash equivalents totaled \$66.4 million compared to \$318.8 million at September 30, 2018 .
- Forestar's inventories totaled \$851.5 million compared to \$498.0 million at September 30, 2018 .

Financial Services:

- Financial services revenues increased 7% to \$101.6 million compared to \$94.9 million .
- Financial services pre-tax income increased 8% to \$34.0 million compared to \$31.4 million .
- Financial services pre-tax income was 33.5% of financial services revenues compared to 33.1% .

Consolidated Results:

- Consolidated pre-tax income was \$462.8 million compared to \$444.8 million .
- Consolidated pre-tax income was 11.2% of consolidated revenues compared to 11.7% .
- Income tax expense was \$108.4 million compared to \$94.0 million .
- Net income attributable to D.R. Horton was \$351.3 million compared to \$351.0 million .
- Diluted net income per common share attributable to D.R. Horton was \$0.93 compared to \$0.91 .
- Stockholders' equity was \$9.4 billion compared to \$9.0 billion and \$8.2 billion at September 30, 2018 and March 31, 2018 , respectively.
- Book value per common share increased to \$ 25.09 compared to \$ 23.88 and \$ 21.72 at September 30, 2018 and March 31, 2018 , respectively.
- Debt to total capital was 27.9% compared to 26.3% at September 30, 2018 and 28.3% at March 31, 2018 .

Key financial results for the six months ended March 31, 2019, as compared to the same period of 2018 (or from the acquisition date of October 5, 2017 through March 31, 2018 for Forestar's results), were as follows:

Homebuilding:

- Homebuilding revenues increased 7% to \$7.4 billion compared to \$6.9 billion .
- Homes closed increased 8% to 24,980 homes, and the average closing price of those homes was \$295,900 .
- Net sales orders increased 5% to 27,847 homes, and the value of net sales orders increased 3% to \$8.2 billion .
- Home sales gross margin was 19.6% compared to 20.8% .
- Homebuilding SG&A expense was 9.2% of homebuilding revenues compared to 9.1% .
- Homebuilding pre-tax income was \$754.8 million compared to \$789.8 million .
- Homebuilding pre-tax income was 10.2% of homebuilding revenues compared to 11.4% .
- Net cash used in homebuilding operations was \$215.9 million compared to cash provided by homebuilding operations of \$90.7 million .

Forestar:

- Forestar's revenues increased 94% to \$103.8 million compared to \$53.5 million . Revenues in the current and prior year periods included \$68.7 million and \$8.5 million , respectively, of revenue from land and lot sales to our homebuilding segment.
- Forestar's pre-tax income increased 145% to \$21.3 million compared to \$8.7 million .

Financial Services:

- Financial services revenues increased 6% to \$186.9 million compared to \$176.0 million .
- Financial services pre-tax income increased 7% to \$57.6 million compared to \$53.7 million .
- Financial services pre-tax income was 30.8% of financial services revenues compared to 30.5% .

Consolidated Results:

- Consolidated pre-tax income was \$838.5 million compared to \$836.1 million .
- Consolidated pre-tax income was 11.0% of consolidated revenues compared to 11.7% .
- Income tax expense was \$197.4 million compared to \$296.4 million . Income tax expense in the prior year period included a charge of \$108.7 million as a result of the Tax Cuts and Jobs Act (Tax Act).
- Net income attributable to D.R. Horton increased 18% to \$638.4 million compared to \$540.3 million .
- Diluted net income per common share attributable to D.R. Horton increased 19% to \$1.68 compared to \$1.41 .
- Net cash used in operations was \$461.7 million compared to \$98.8 million .

RESULTS OF OPERATIONS - HOMEBUILDING

We conduct our homebuilding operations in the geographic regions, states and markets listed below, and we conduct our financial services operations in many of these markets. Our homebuilding operating divisions are aggregated into six reporting segments, also referred to as reporting regions, which comprise the markets below. Our financial statements and the notes thereto contain additional information regarding segment performance.

<u>State</u>	<u>Reporting Region/Market</u>	<u>State</u>	<u>Reporting Region/Market</u>
	<u>East Region</u>		<u>Southeast Region</u>
Delaware	Central Delaware	Alabama	Birmingham
	Northern Delaware		Huntsville
Georgia	Savannah		Mobile/Baldwin County
Maryland	Baltimore		Montgomery
	Suburban Washington, D.C.		Tuscaloosa
New Jersey	Northern New Jersey	Florida	Fort Myers/Naples
	Southern New Jersey		Gainesville
North Carolina	Charlotte		Jacksonville
	Greensboro/Winston-Salem		Lakeland
	Raleigh/Durham		Melbourne/Vero Beach
	Wilmington		Miami/Fort Lauderdale
Pennsylvania	Philadelphia		Ocala
South Carolina	Charleston		Orlando
	Columbia		Pensacola/Panama City
	Greenville/Spartanburg		Port St. Lucie
	Hilton Head		Tampa/Sarasota
	Myrtle Beach		Volusia County
Virginia	Northern Virginia		West Palm Beach
	Southern Virginia	Georgia	Atlanta
			Augusta
		Mississippi	Gulf Coast
Colorado	<u>Midwest Region</u>	Tennessee	Knoxville
	Denver		Nashville
	Fort Collins		
Illinois	Chicago		
Indiana	Fort Wayne		<u>West Region</u>
	Indianapolis	California	Bakersfield
Iowa	Des Moines		Bay Area
Minnesota	Minneapolis/St. Paul		Fresno
Ohio	Columbus		Los Angeles County
			Riverside County
			Sacramento
Louisiana	<u>South Central Region</u>		San Bernardino County
	Baton Rouge		San Diego County
	Lafayette		Ventura County
Oklahoma	Oklahoma City		
Texas	Austin	Hawaii	Hawaii
	Dallas		Kauai
	Fort Worth		Maui
	Houston		Oahu
	Killeen/Temple/Waco	Nevada	Las Vegas
	Midland/Odessa		Reno
	New Braunfels/San Marcos	Oregon	Portland/Salem
	San Antonio	Utah	Salt Lake City
		Washington	Seattle/Tacoma/Everett
			Spokane
			Vancouver
Arizona	<u>Southwest Region</u>		
	Phoenix		
	Tucson		

The following tables and related discussion set forth key operating and financial data for our homebuilding operations by reporting segment as of and for the three and six months ended March 31, 2019 and 2018 .

Net Sales Orders (1)

Three Months Ended March 31,

	Net Homes Sold			Value (In millions)			Average Selling Price		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
	East	2,426	1,991	22 %	\$ 693.1	\$ 566.8	22 %	\$ 285,700	\$ 284,700
Midwest	1,036	790	31 %	361.3	306.5	18 %	348,700	388,000	(10)%
Southeast	5,605	5,054	11 %	1,488.4	1,352.6	10 %	265,500	267,600	(1)%
South Central	4,779	4,788	— %	1,203.2	1,200.5	— %	251,800	250,700	— %
Southwest	797	889	(10)%	206.2	211.7	(3)%	258,700	238,100	9 %
West	2,162	2,316	(7)%	989.8	1,103.4	(10)%	457,800	476,400	(4)%
	16,805	15,828	6 %	\$ 4,942.0	\$ 4,741.5	4 %	\$ 294,100	\$ 299,600	(2)%

Six Months Ended March 31,

	Net Homes Sold			Value (In millions)			Average Selling Price		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
	East	3,996	3,421	17 %	\$ 1,138.0	\$ 965.3	18 %	\$ 284,800	\$ 282,200
Midwest	1,568	1,167	34 %	558.2	451.5	24 %	356,000	386,900	(8)%
Southeast	9,221	8,686	6 %	2,451.7	2,329.0	5 %	265,900	268,100	(1)%
South Central	8,174	7,814	5 %	2,059.0	1,961.2	5 %	251,900	251,000	— %
Southwest	1,327	1,590	(17)%	341.1	376.8	(9)%	257,000	237,000	8 %
West	3,561	3,903	(9)%	1,619.2	1,880.3	(14)%	454,700	481,800	(6)%
	27,847	26,581	5 %	\$ 8,167.2	\$ 7,964.1	3 %	\$ 293,300	\$ 299,600	(2)%

Sales Order Cancellations

Three Months Ended March 31,

	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2019	2018	2019	2018	2019	2018
	East	573	487	\$ 162.8	\$ 138.1	19%
Midwest	162	70	55.3	26.2	14%	8%
Southeast	1,378	1,499	367.6	397.1	20%	23%
South Central	1,234	1,194	307.4	293.8	21%	20%
Southwest	234	244	57.9	56.1	23%	22%
West	315	326	147.8	148.8	13%	12%
	3,896	3,820	\$ 1,098.8	\$ 1,060.1	19%	19%

Six Months Ended March 31,

	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2019	2018	2019	2018	2019	2018
	East	1,072	877	\$ 302.8	\$ 249.3	21%
Midwest	269	122	93.4	47.0	15%	9%
Southeast	2,597	2,620	694.3	691.6	22%	23%
South Central	2,290	2,127	571.1	525.0	22%	21%
Southwest	520	452	129.0	103.9	28%	22%
West	634	604	295.2	284.7	15%	13%
	7,382	6,802	\$ 2,085.8	\$ 1,901.5	21%	20%

(1) Net sales orders represent the number and dollar value of new sales contracts executed with customers (gross sales orders), net of cancelled sales orders.

(2) Cancellation rate represents the number of cancelled sales orders divided by gross sales orders.

Net Sales Orders

The number of net sales orders increased 6% and 5% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The value of net sales orders increased 4% to \$4.9 billion (16,805 homes) and 3% to \$8.2 billion (27,847 homes) for the three and six months ended March 31, 2019, respectively, compared to \$4.7 billion (15,828 homes) and \$8.0 billion (26,581 homes) in the prior year periods. Increases in the East, Midwest and Southeast regions were partially offset by decreases in the Southwest and West regions. The average selling price of net sales orders during the three and six months ended March 31, 2019 was \$294,100 and \$293,300, respectively, both down 2% from the prior year periods.

Higher sales volumes in our East and Midwest regions reflect our recent acquisitions of the homebuilding operations of Terramor Homes, Westport Homes and Classic Builders, which added 105 and 119 net sales orders to the East region's results and 387 and 497 net sales orders to the Midwest region's results in the three and six months ended March 31, 2019, respectively. The decreases in net sales orders in our Southwest and West regions were primarily due to decreases in sales orders in our Phoenix and California markets. Our sales order cancellation rate (cancelled sales orders divided by gross sales orders for the period) was 19% and 21% in the three and six months ended March 31, 2019, respectively, compared to 19% and 20% in the prior year periods.

We believe our business is well positioned to continue to generate increased sales volume; however, our future sales volumes will depend on new home demand in each of our operating markets and our ability to successfully implement our operating strategies.

Sales Order Backlog

As of March 31,

	Homes in Backlog			Value (In millions)			Average Selling Price		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
	East	2,550	2,046	25 %	\$ 744.1	\$ 589.7	26 %	\$ 291,800	\$ 288,200
Midwest	1,228	664	85 %	417.7	258.9	61 %	340,100	389,900	(13)%
Southeast	5,132	5,064	1 %	1,414.5	1,404.2	1 %	275,600	277,300	(1)%
South Central	5,246	4,956	6 %	1,351.5	1,257.8	7 %	257,600	253,800	1 %
Southwest	1,013	1,028	(1)%	275.9	244.8	13 %	272,400	238,100	14 %
West	1,721	2,083	(17)%	794.0	1,078.1	(26)%	461,400	517,600	(11)%
	16,890	15,841	7 %	\$ 4,997.7	\$ 4,833.5	3 %	\$ 295,900	\$ 305,100	(3)%

Sales Order Backlog

Sales order backlog represents homes under contract but not yet closed at the end of the period. Many of the contracts in our sales order backlog are subject to contingencies, including mortgage loan approval and buyers selling their existing homes, which can result in cancellations. A portion of the contracts in backlog will not result in closings due to cancellations.

Homes Closed and Home Sales Revenue
Three Months Ended March 31,

	Homes Closed			Value (In millions)			Average Selling Price		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
	East	1,791	1,531	17 %	\$ 518.0	\$ 435.4	19 %	\$ 289,200	\$ 284,400
Midwest	701	514	36 %	246.4	203.6	21 %	351,500	396,100	(11)%
Southeast	4,527	3,935	15 %	1,196.1	1,041.0	15 %	264,200	264,500	— %
South Central	3,942	3,636	8 %	986.9	913.3	8 %	250,400	251,200	— %
Southwest	681	713	(4)%	173.2	168.8	3 %	254,300	236,700	7 %
West	1,838	1,952	(6)%	859.9	910.0	(6)%	467,800	466,200	— %
	<u>13,480</u>	<u>12,281</u>	<u>10 %</u>	<u>\$ 3,980.5</u>	<u>\$ 3,672.1</u>	<u>8 %</u>	<u>\$ 295,300</u>	<u>\$ 299,000</u>	<u>(1)%</u>

Six Months Ended March 31,

	Homes Closed			Value (In millions)			Average Selling Price		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
	East	3,349	2,919	15 %	\$ 963.9	\$ 828.4	16 %	\$ 287,800	\$ 283,800
Midwest	1,372	922	49 %	491.2	365.0	35 %	358,000	395,900	(10)%
Southeast	8,310	7,679	8 %	2,209.5	2,029.7	9 %	265,900	264,300	1 %
South Central	7,420	6,814	9 %	1,859.3	1,721.6	8 %	250,600	252,700	(1)%
Southwest	1,242	1,405	(12)%	316.8	324.6	(2)%	255,100	231,000	10 %
West	3,287	3,330	(1)%	1,550.5	1,587.3	(2)%	471,700	476,700	(1)%
	<u>24,980</u>	<u>23,069</u>	<u>8 %</u>	<u>\$ 7,391.2</u>	<u>\$ 6,856.6</u>	<u>8 %</u>	<u>\$ 295,900</u>	<u>\$ 297,200</u>	<u>— %</u>

Home Sales Revenue

Revenues from home sales increased 8% to \$4.0 billion (13,480 homes closed) for the three months ended March 31, 2019 from \$3.7 billion (12,281 homes closed) in the prior year period. Revenues from home sales increased 8% to \$7.4 billion (24,980 homes closed) for the six months ended March 31, 2019 from \$6.9 billion (23,069 homes closed) in the prior year period. Home sales revenues increased in most of our regions primarily due to an increase in the number of homes closed.

The number of homes closed increased 10% and 8% in the three and six months ended March 31, 2019 , respectively, compared to the prior year periods. The increases in our East and Midwest regions reflect our recent acquisitions of the homebuilding operations of Terramor Homes, Westport Homes and Classic Builders, which added 68 and 88 closings to the East region's results and 198 and 379 closings to the Midwest region's results in the three and six months ended March 31, 2019 , respectively. The decreases in home closings in our Southwest and West regions were primarily due to decreases in homes closed in our Phoenix and California markets, respectively. The average selling price of homes closed during the three and six months ended March 31, 2019 was \$295,300 and \$295,900 , respectively, down slightly from the prior year periods. Decreases in the average selling price of homes closed in the Midwest region were largely offset by an increase in the average selling price in the Southwest region.

Homebuilding Operating Margin Analysis

	Percentages of Related Revenues			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Gross profit – home sales	19.3 %	20.8 %	19.6 %	20.8 %
Gross profit – land/lot sales and other	37.6 %	11.8 %	33.2 %	13.4 %
Inventory and land option charges	(0.3)%	(0.8)%	(0.3)%	(0.5)%
Gross profit – total homebuilding	19.0 %	20.0 %	19.3 %	20.3 %
Selling, general and administrative expense	9.0 %	8.8 %	9.2 %	9.1 %
Gain on sale of assets	— %	— %	— %	(0.2)%
Other (income) expense	— %	(0.1)%	— %	— %
Homebuilding pre-tax income	10.0 %	11.3 %	10.2 %	11.4 %

Home Sales Gross Profit

Gross profit from home sales was \$766.3 million in the three months ended March 31, 2019 compared to \$764.6 million in the prior year period and decreased 150 basis points to 19.3% as a percentage of home sales revenues. The percentage decrease resulted from a decrease of 180 basis points due to the average selling price of our homes closed decreasing while the average cost increased and 10 basis points from an increase in the amount of purchase accounting adjustments for recent acquisitions, partially offset by a decrease of 20 basis points in the amortization of capitalized interest and 20 basis points from warranty and construction defect expenses.

Gross profit from home sales increased 1% in the six months ended March 31, 2019 from the prior year period and decreased 120 basis points to 19.6% as a percentage of home sales revenues. The percentage decrease resulted from a decrease of 150 basis points due to the average cost of our homes closed increasing while the average selling price decreased and 10 basis points from an increase in the amount of purchase accounting adjustments for recent acquisitions, partially offset by a decrease of 20 basis points in the amortization of capitalized interest and 20 basis points from warranty and construction defect expenses.

We remain focused on managing the pricing, incentives and sales pace in each of our communities to optimize the returns on our inventory investments and adjust to local market conditions and new home demand. These actions could cause our gross profit margins to fluctuate in future periods.

Land Sales and Other Revenues

Land sales and other revenues from our homebuilding operations were \$14.9 million and \$21.7 million in the three and six months ended March 31, 2019, respectively, and \$13.6 million and \$50.0 million in the comparable periods of fiscal 2018. Land sales revenues during the six months ended March 31, 2018 included \$26.5 million from the sale of a parcel of land in California. We continually evaluate our land and lot supply, and fluctuations in revenues and profitability from land sales occur based on how we manage our inventory levels in various markets. We generally purchase land and lots with the intent to build and sell homes on them. However, some of the land that we purchase includes commercially zoned parcels that we may sell to commercial developers. We may also sell residential lots or land parcels to manage our supply or for other strategic reasons. As of March 31, 2019, our homebuilding operations had \$49.0 million of land held for sale that we expect to sell in the next twelve months.

Inventory and Land Option Charges

At March 31, 2019, we reviewed the performance and outlook for all of our communities and land inventories for indicators of potential impairment and performed detailed impairment evaluations and analyses when necessary. We performed detailed impairment evaluations of communities and land inventories with a combined carrying value of \$95.5 million and recorded impairment charges of \$7.7 million during the three months ended March 31, 2019 to reduce the carrying value of impaired communities to fair value. During the six months ended March 31, 2019, impairment charges totaled \$11.9 million. There were \$3.0 million and \$4.4 million of impairment charges recorded in the three and six months ended March 31, 2018, respectively.

As we manage our inventory investments across our operating markets to optimize returns and cash flows, we may modify our pricing and incentives, construction and development plans or land sale strategies in individual active communities and land held for development, which could result in the affected communities being evaluated for potential impairment. Also, if housing or economic conditions weaken in specific markets in which we operate, or if conditions weaken in the broader economy or homebuilding industry, we may be required to evaluate additional communities for potential impairment. These evaluations could result in additional impairment charges.

During the three and six months ended March 31, 2019, we wrote off \$6.1 million and \$9.9 million, respectively, of earnest money deposits and pre-acquisition costs related to land contracts that we have terminated or expect to terminate. Earnest money and pre-acquisition cost write-offs for the three and six months ended March 31, 2018 were \$2.6 million and \$4.9 million, respectively. Inventory and land option charges for the three and six months ended March 31, 2018 also included a charge of \$24.5 million related to the settlement of an outstanding dispute associated with a land transaction.

Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities increased 11% to \$359.3 million and 9% to \$683.9 million in the three and six months ended March 31, 2019, respectively, from \$322.7 million and \$627.5 million in the prior year periods. SG&A expense as a percentage of homebuilding revenues was 9.0% and 9.2% in the three and six months ended March 31, 2019, respectively, compared to 8.8% and 9.1% in the prior year periods.

Employee compensation and related costs represented 73% and 72% of SG&A costs in the three and six months ended March 31, 2019, respectively, compared to 73% and 71% in the prior year periods. These costs increased 11% to \$262.8 million and 9% to \$489.1 million in the three and six months ended March 31, 2019, respectively, due to increases in the number of employees as compared to the prior year periods. Our homebuilding operations employed 6,904 and 6,127 employees at March 31, 2019 and 2018, respectively.

We attempt to control our SG&A costs while ensuring that our infrastructure adequately supports our operations; however, we cannot make assurances that we will be able to maintain or improve upon the current SG&A expense as a percentage of revenues.

Interest Incurred

We capitalize interest costs incurred to inventory during active development and construction (active inventory). Capitalized interest is charged to cost of sales as the related inventory is delivered to the buyer. Interest incurred by our homebuilding operations increased 9% to \$30.5 million and 1% to \$57.6 million in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The increases correspond to increases in our average homebuilding debt of 7% and 1%, respectively. Interest charged to cost of sales was 0.9% of total cost of sales (excluding inventory and land option charges) in both the three and six months ended March 31, 2019, compared to 1.1% in both prior year periods.

Gain on Sale of Assets

Gain on sale of assets from our homebuilding operations was \$2.0 million in the six months ended March 31, 2019 compared to \$13.4 million in the prior year period. The gain on sale during both periods resulted from the sale of multi-family rental units in our Southeast region.

Other Income

Other income, net of other expenses, included in our homebuilding operations was \$1.6 million and \$3.5 million in the three and six months ended March 31, 2019, respectively, compared to \$2.6 million and \$3.4 million in the prior year periods. Other income consists of interest income, rental income and various other types of ancillary income, gains, expenses and losses not directly associated with sales of homes, land and lots. The activities that result in this ancillary income or expense are not significant, either individually or in the aggregate.

Business Acquisitions

During the first quarter of fiscal 2019, we acquired the homebuilding operations of Westport Homes, Classic Builders and Terramor Homes for \$325.9 million. The assets acquired included approximately 700 homes in inventory, 4,500 lots and control of approximately 4,300 additional lots through land purchase contracts. We also acquired a sales order backlog of approximately 700 homes. Westport Homes operates in Indianapolis and Fort Wayne, Indiana, and Columbus, Ohio; Classic Builders operates in Des Moines, Iowa; and Terramor Homes operates in Raleigh, North Carolina.

Homebuilding Results by Reporting Region

	Three Months Ended March 31,					
	2019			2018		
	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues
	(In millions)					
East	\$ 518.2	\$ 45.9	8.9%	\$ 435.8	\$ 46.7	10.7%
Midwest	248.1	9.5	3.8%	203.6	18.7	9.2%
Southeast	1,205.3	131.0	10.9%	1,042.0	96.3	9.2%
South Central	990.2	119.3	12.0%	919.0	120.5	13.1%
Southwest	173.2	18.6	10.7%	172.1	22.0	12.8%
West	860.4	76.1	8.8%	913.2	111.8	12.2%
	<u>\$ 3,995.4</u>	<u>\$ 400.4</u>	<u>10.0%</u>	<u>\$ 3,685.7</u>	<u>\$ 416.0</u>	<u>11.3%</u>

	Six Months Ended March 31,					
	2019			2018		
	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues
	(In millions)					
East	\$ 965.7	\$ 83.9	8.7%	\$ 828.9	\$ 91.7	11.1%
Midwest	497.2	20.2	4.1%	365.0	32.0	8.8%
Southeast	2,219.2	243.2	11.0%	2,030.6	218.8	10.8%
South Central	1,862.7	225.3	12.1%	1,727.8	222.0	12.8%
Southwest	316.9	36.3	11.5%	328.5	36.7	11.2%
West	1,551.2	145.9	9.4%	1,625.8	188.6	11.6%
	<u>\$ 7,412.9</u>	<u>\$ 754.8</u>	<u>10.2%</u>	<u>\$ 6,906.6</u>	<u>\$ 789.8</u>	<u>11.4%</u>

- (1) Expenses maintained at the corporate level consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating our corporate office. The amortization of capitalized interest and property taxes is allocated to each segment based on the segment's cost of sales, while expenses associated with the corporate office are allocated to each segment based on the segment's inventory balances.

East Region — Homebuilding revenues increased 19% and 17% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, primarily due to increases in the number of homes closed in our Carolina markets. The acquisition of Terramor Homes in the first quarter of fiscal 2019 contributed \$23.0 million and \$30.1 million of revenues in the current year three and six month periods, respectively. The region generated pre-tax income of \$45.9 million and \$83.9 million in the three and six months ended March 31, 2019, respectively, compared to \$46.7 million and \$91.7 million in the prior year periods. Gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) decreased by 190 and 240 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, due to increases in the average cost of homes closed. As a percentage of homebuilding revenues, SG&A expense was unchanged in the three month period and decreased by 10 basis points in the six month period ended March 31, 2019 compared to the prior year periods.

Midwest Region — Homebuilding revenues increased 22% and 36% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The increases were largely due to the acquisitions of Westport Homes and Classic Builders in the first quarter of fiscal 2019 which contributed \$57.0 million and \$108.7 million of revenues in the current year three and six month periods, respectively. The region generated pre-tax income of \$9.5 million and \$20.2 million in the three and six months ended March 31, 2019, respectively, compared to \$18.7 million and \$32.0 million in the prior year periods. Home sales gross profit percentage decreased by 400 and 480 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The decreases in home sales gross profit percentage were due to the average selling price of homes closed decreasing by more than the average cost. As a percentage of homebuilding revenues, SG&A expense increased by 150 basis points and decreased by 10 basis points in the three and six months ended March 31, 2019, respectively. The increase in the three month period was primarily due to an increase in employee compensation and other costs related to the recent acquisitions.

Southeast Region — Homebuilding revenues increased 16% and 9% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, primarily due to increases in many of our Florida markets. The region generated pre-tax income of \$131.0 million and \$243.2 million in the three and six months ended March 31, 2019, respectively, compared to \$96.3 million and \$218.8 million in the prior year periods. The region's results in both prior year periods include a \$24.5 million inventory and land option charge related to the settlement of an outstanding dispute associated with a land transaction. The region's pre-tax income in the prior year six month period included a \$13.4 million gain on sale of multi-family rental units in one community. Home sales gross profit percentage decreased by 80 and 30 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. As a percentage of homebuilding revenues, SG&A expense decreased by 20 basis points and increased by 10 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods.

South Central Region — Homebuilding revenues increased 8% in both the three and six months ended March 31, 2019 compared to the prior year periods, primarily due to increases in the number of homes closed in our Houston and Fort Worth markets. The region generated pre-tax income of \$119.3 million and \$225.3 million in the three and six months ended March 31, 2019, respectively, compared to \$120.5 million and \$222.0 million in the prior year periods. Home sales gross profit percentage decreased by 130 and 120 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, due to the average selling price of homes closed decreasing while the average cost increased slightly. As a percentage of homebuilding revenues, SG&A expense decreased by 10 and 20 basis points in the three and six month period ended March 31, 2019, respectively, compared to the prior year periods.

Southwest Region — Homebuilding revenues increased 1% and decreased 4% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. In both periods, the number of homes closed in the region decreased, particularly in our Phoenix market, while the average selling price of homes closed increased. The region generated pre-tax income of \$18.6 million and \$36.3 million in the three and six months ended March 31, 2019, respectively, compared to \$22.0 million and \$36.7 million in the prior year periods. Home sales gross profit percentage decreased by 220 basis points and increased by 20 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The gross profit percentage in the current year three month period was negatively affected by an increase in warranty and construction defect costs. As a percentage of homebuilding revenues, SG&A expense increased by 30 and 40 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods.

West Region — Homebuilding revenues decreased 6% and 5% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The decrease in the three month period was due to a decrease in the number of homes closed, particularly in our California markets. The decrease in the six month period was primarily due to land sales of \$38.6 million in the prior year period compared to \$0.3 million in the current year period. The region generated pre-tax income of \$76.1 million and \$145.9 million in the three and six months ended March 31, 2019, respectively, compared to \$111.8 million and \$188.6 million in the prior year periods. Home sales gross profit percentage decreased by 180 and 90 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, due to the average cost of homes increasing more than the average selling price. As a percentage of homebuilding revenues, SG&A expense increased by 80 and 70 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, primarily due to a decrease in homebuilding revenues.

HOMEBUILDING INVENTORIES, LAND AND LOT POSITION AND HOMES IN INVENTORY

We routinely enter into contracts to purchase land or developed residential lots at predetermined prices on a defined schedule commensurate with planned development or anticipated new home demand. We also purchase undeveloped land that generally is vested with the rights to begin development or construction work, and we plan and coordinate the development of our land into residential lots for use in our homebuilding business. We manage our inventory of owned land and lots and homes under construction relative to demand in each of our markets, including starting construction on unsold homes to capture new home demand and actively controlling the number of unsold, completed homes in inventory.

Our homebuilding segment's inventories at March 31, 2019 and September 30, 2018 are summarized as follows:

As of March 31, 2019					
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Land Held for Sale	Total Inventory
(In millions)					
East	\$ 829.2	\$ 512.5	\$ 10.3	\$ 2.4	\$ 1,354.4
Midwest	444.6	370.6	1.8	0.7	817.7
Southeast	1,603.8	1,213.6	31.8	2.9	2,852.1
South Central	1,447.9	1,272.4	0.3	—	2,720.6
Southwest	251.6	374.8	1.7	—	628.1
West	1,378.8	1,030.1	15.6	42.4	2,466.9
Corporate and unallocated (1)	130.2	105.4	0.8	0.6	237.0
	<u>\$ 6,086.1</u>	<u>\$ 4,879.4</u>	<u>\$ 62.3</u>	<u>\$ 49.0</u>	<u>\$ 11,076.8</u>

As of September 30, 2018					
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Land Held for Sale	Total Inventory
(In millions)					
East	\$ 648.6	\$ 529.5	\$ 10.1	\$ 3.8	\$ 1,192.0
Midwest	369.9	208.0	1.8	3.4	583.1
Southeast	1,388.4	1,248.5	31.5	0.3	2,668.7
South Central	1,222.5	1,216.3	0.3	0.3	2,439.4
Southwest	194.8	303.2	1.7	—	499.7
West	1,146.5	1,076.1	14.4	31.5	2,268.5
Corporate and unallocated (1)	113.7	107.7	1.4	0.9	223.7
	<u>\$ 5,084.4</u>	<u>\$ 4,689.3</u>	<u>\$ 61.2</u>	<u>\$ 40.2</u>	<u>\$ 9,875.1</u>

(1) Corporate and unallocated inventory consists primarily of capitalized interest and property taxes.

Our homebuilding segment's land and lot position and homes in inventory at March 31, 2019 and September 30, 2018 are summarized as follows:

As of March 31, 2019				
	Land/Lots Owned (1)	Lots Controlled Under Land and Lot Purchase Contracts (2)(3)	Total Land/Lots Owned and Controlled	Homes in Inventory (4)
East	9,800	25,800	35,600	4,700
Midwest	7,300	14,300	21,600	2,100
Southeast	34,600	84,800	119,400	9,700
South Central	42,200	50,900	93,100	9,400
Southwest	6,700	6,200	12,900	1,700
West	20,300	13,500	33,800	4,500
	<u>120,900</u>	<u>195,500</u>	<u>316,400</u>	<u>32,100</u>
	<u>38%</u>	<u>62%</u>	<u>100%</u>	
As of September 30, 2018				
	Land/Lots Owned (1)	Lots Controlled Under Land and Lot Purchase Contracts (2)(3)	Total Land/Lots Owned and Controlled	Homes in Inventory (4)
East	11,900	19,400	31,300	3,700
Midwest	3,800	9,300	13,100	1,700
Southeast	37,100	70,400	107,500	8,900
South Central	42,900	45,700	88,600	8,400
Southwest	7,600	5,000	12,600	1,400
West	21,000	14,400	35,400	3,800
	<u>124,300</u>	<u>164,200</u>	<u>288,500</u>	<u>27,900</u>
	<u>43%</u>	<u>57%</u>	<u>100%</u>	

- (1) Land/lots owned include approximately 34,900 and 35,100 owned lots that are fully developed and ready for home construction at March 31, 2019 and September 30, 2018 , respectively. Land/lots owned also include land held for development representing 1,800 and 1,700 lots at March 31, 2019 and September 30, 2018 , respectively.
- (2) The total remaining purchase price of lots controlled through land and lot purchase contracts at March 31, 2019 and September 30, 2018 was \$7.4 billion and \$6.5 billion , respectively, secured by earnest money deposits of \$461.0 million and \$401.1 million , respectively. The total remaining purchase price of lots controlled at March 31, 2019 included \$895.8 million related to lot purchase contracts with Forestar, secured by \$76.5 million of earnest money. The total remaining purchase price of lots controlled at September 30, 2018 included \$522.2 million related to lot purchase contracts with Forestar, secured by \$48.0 million of earnest money.
- (3) Lots controlled at March 31, 2019 include approximately 21,700 lots owned or controlled by Forestar, 12,100 of which our homebuilding divisions have under contract to purchase and 9,600 of which our homebuilding divisions have a right of first offer to purchase. Of these, approximately 7,600 lots were in our Southeast region, 4,600 lots were in our South Central region, 4,200 lots were in our West region, 2,300 lots were in our East region, 2,200 lots were in our Southwest region and 800 lots were in our Midwest region. Lots controlled at September 30, 2018 included approximately 13,600 lots owned or controlled by Forestar, 5,500 of which our homebuilding divisions had under contract to purchase and 8,100 of which our homebuilding divisions had a right of first offer to purchase.
- (4) Approximately 17,800 and 16,400 of our homes in inventory were unsold at March 31, 2019 and September 30, 2018 , respectively. At March 31, 2019 , approximately 5,300 of our unsold homes were completed, of which approximately 500 homes had been completed for more than six months. At September 30, 2018 , approximately 4,000 of our unsold homes were completed, of which approximately 400 homes had been completed for more than six months. Homes in inventory exclude approximately 1,900 and 1,800 model homes at March 31, 2019 and September 30, 2018 , respectively.

RESULTS OF OPERATIONS – FORESTAR

On October 5, 2017, we acquired 75% of the outstanding shares of Forestar, a publicly traded residential lot development company with operations in 41 markets and 17 states as of March 31, 2019. Forestar's segment results are presented on their historical cost basis, consistent with the manner in which management evaluates segment performance. (See Note B for additional Forestar segment information and purchase accounting adjustments.)

Results of operations for the Forestar segment for the three and six months ended March 31, 2019 and 2018 were as follows. For fiscal 2018, the six month period refers to the period from the acquisition date of October 5, 2017 through March 31, 2018.

	Three Months Ended March 31,		Six Months Ended March 31, 2019	For the Period from October 5, 2017 to March 31, 2018
	2019	2018		
	(In millions)			
Residential land and lot sales	\$ 50.4	\$ 20.6	\$ 85.3	\$ 44.4
Commercial lot sales	15.0	2.0	18.5	9.1
Total revenues	\$ 65.4	\$ 22.6	\$ 103.8	\$ 53.5
Cost of sales	43.7	16.2	74.3	35.5
Selling, general and administrative expense	6.2	5.6	11.9	19.1
Gain on sale of assets	—	(2.7)	(0.9)	(2.7)
Interest expense	—	2.1	—	4.2
Other (income) expense	(0.9)	(3.2)	(2.8)	(11.3)
Income before income taxes	\$ 16.4	\$ 4.6	\$ 21.3	\$ 8.7

Residential land and lot sales primarily consist of the sale of single-family lots to local, regional and national homebuilders. During the three and six months ended March 31, 2019, Forestar lot sales, including the portion sold to D.R. Horton and the revenues generated from those sales, were as follows.

	Three Months Ended March 31,		Six Months Ended March 31, 2019	For the Period from October 5, 2017 to March 31, 2018
	2019	2018		
	(\$ in millions)			
Total residential single-family lots sold	548	304	1,066	559
Residential single-family lots sold to D.R. Horton	453	183	908	183
Residential land and lot sales revenues from sales to D.R. Horton	\$ 39.7	\$ 8.5	\$ 68.7	\$ 8.5

SG&A expense for the three and six months ended March 31, 2019 includes charges of \$0.5 million and \$1.0 million, respectively, related to the shared services agreement between Forestar and D.R. Horton whereby D.R. Horton provides Forestar with certain administrative, compliance, operational and procurement services. Shared services charges were \$0.3 million in both periods of fiscal 2018. SG&A expense for the six month period ended March 31, 2018 includes \$6.3 million of severance and change of control charges for Forestar's executive officers that were triggered shortly after the acquisition date.

Other income includes equity in earnings of unconsolidated entities of \$0.6 million in the six months ended March 31, 2019 and \$1.5 million and \$9.1 million in the three and six months ended March 31, 2018, respectively. The amount for the prior year six month period primarily relates to the sale of a multi-family joint venture project in Nashville, Tennessee.

At March 31, 2019, Forestar owned directly or controlled through land and lot purchase contracts approximately 31,400 residential lots, of which approximately 3,600 are fully developed. Approximately 21,700 of these lots are under contract to sell to D.R. Horton or subject to a right of first offer under the master supply agreement with D.R. Horton. Approximately 300 of these lots are under contract to sell to other builders.

RESULTS OF OPERATIONS – FINANCIAL SERVICES

The following tables and related discussion set forth key operating and financial data for our financial services operations, comprising DHI Mortgage and our subsidiary title companies, for the three and six months ended March 31, 2019 and 2018 .

	Three Months Ended March 31,			Six Months Ended March 31,		
	2019	2018	% Change	2019	2018	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	7,518	7,046	7%	13,762	13,060	5%
Number of homes closed by D.R. Horton	13,480	12,281	10%	24,980	23,069	8%
Percentage of D.R. Horton homes financed by DHI Mortgage	56%	57%		55%	57%	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	7,536	7,081	6%	13,797	13,127	5%
Total number of loans originated or brokered by DHI Mortgage	7,662	7,278	5%	14,060	13,566	4%
Captive business percentage	98%	97%		98%	97%	
Loans sold by DHI Mortgage to third parties	6,949	6,758	3%	13,996	13,100	7%

	Three Months Ended March 31,			Six Months Ended March 31,		
	2019	2018	% Change	2019	2018	% Change
	(In millions)					
Loan origination fees	\$ 3.5	\$ 3.8	(8)%	\$ 6.8	\$ 7.3	(7)%
Sale of servicing rights and gains from sale of mortgage loans	73.1	68.8	6 %	132.9	125.7	6 %
Other revenues	5.2	4.5	16 %	9.7	8.6	13 %
Total mortgage operations revenues	81.8	77.1	6 %	149.4	141.6	6 %
Title policy premiums	19.8	17.8	11 %	37.5	34.4	9 %
Total revenues	101.6	94.9	7 %	186.9	176.0	6 %
General and administrative expense	71.3	66.7	7 %	137.0	128.4	7 %
Other (income) expense	(3.7)	(3.2)	16 %	(7.7)	(6.1)	26 %
Financial services pre-tax income	\$ 34.0	\$ 31.4	8 %	\$ 57.6	\$ 53.7	7 %

Financial Services Operating Margin Analysis

	Percentages of Financial Services Revenues			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
General and administrative expense	70.2 %	70.3 %	73.3 %	73.0 %
Other (income) expense	(3.6)%	(3.4)%	(4.1)%	(3.5)%
Financial services pre-tax income	33.5 %	33.1 %	30.8 %	30.5 %

Mortgage Loan Activity

The volume of loans originated by our mortgage operations is directly related to the number of homes closed by our homebuilding operations. In the three and six months ended March 31, 2019, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased 7% and 5%, respectively, primarily as a result of increases in the number of homes closed by our homebuilding operations of 10% and 8%. The percentage of homes closed for which DHI Mortgage handled the homebuyers' financing was 56% and 55% in the three and six months ended March 31, 2019, respectively, compared to 57% in both prior year periods.

Homes closed by our homebuilding operations constituted 98% of DHI Mortgage loan originations in both the three and six months ended March 31, 2019 compared to 97% in both prior year periods. These percentages reflect DHI Mortgage's consistent focus on the captive business provided by our homebuilding operations.

The number of loans sold increased 3% and 7% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. Virtually all of the mortgage loans held for sale on March 31, 2019 were eligible for sale to the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). Approximately 93% of the mortgage loans sold by DHI Mortgage during the six months ended March 31, 2019 were sold to four major financial entities, the largest of which purchased 32% of the total loans sold.

Financial Services Revenues and Expenses

Revenues from our mortgage operations increased 6% to \$81.8 million and \$149.4 million in the three and six months ended March 31, 2019, respectively, from \$77.1 million and \$141.6 million in the prior year periods, while the number of loan originations increased 5% and 4% over those same periods.

General and administrative (G&A) expense related to our financial services operations increased 7% to \$71.3 million and \$137.0 million in the three and six months ended March 31, 2019, respectively, from \$66.7 million and \$128.4 million in the prior year periods. The increases were primarily due to increases in employee related costs. Our financial services operations employed 1,923 and 1,862 employees at March 31, 2019 and 2018, respectively.

As a percentage of financial services revenues, G&A expense was 70.2% and 73.3% in the three and six months ended March 31, 2019, respectively, compared to 70.3% and 73.0% in the prior year periods. Fluctuations in financial services G&A expense as a percentage of revenues can be expected to occur, as some components of revenue may fluctuate differently than loan volumes, and some expenses are not directly related to mortgage loan volume or to changes in the amount of revenue earned.

Other income, net of other expense, included in our financial services operations consists primarily of the interest income of our mortgage subsidiary.

RESULTS OF OPERATIONS - CONSOLIDATED

Income before Income Taxes

Pre-tax income for the three and six months ended March 31, 2019 was \$462.8 million and \$838.5 million, respectively, compared to \$444.8 million and \$836.1 million in the prior year periods.

Income Taxes

Our income tax expense for the three and six months ended March 31, 2019 was \$108.4 million and \$197.4 million, respectively, compared to \$94.0 million and \$296.4 million in the prior year periods. Our effective tax rate was 23.4% and 23.5% for the three and six months ended March 31, 2019, respectively, compared to 21.1% and 35.5% in the prior year periods. The higher effective tax rate for the six months ended March 31, 2018 was primarily due to the remeasurement of our deferred tax assets and liabilities as a result of the Tax Act, which was enacted into law on December 22, 2017. The effective tax rates for all periods include an expense for state income taxes, reduced by tax benefits related to stock-based compensation.

The Tax Act reduced the federal corporate tax rate from 35% to 21% for all corporations effective January 1, 2018. For fiscal year companies, the change in law required the application of a blended tax rate in the year of change, which for us was 24.5% for the fiscal year ended September 30, 2018. For the fiscal year ending September 30, 2019 and thereafter, the applicable statutory federal tax rate is 21%. The Tax Act also repealed the domestic production activities deduction effective for us for fiscal 2019.

Our deferred tax assets, net of deferred tax liabilities, were \$188.9 million at March 31, 2019 compared to \$211.7 million at September 30, 2018. We have a valuation allowance related to state deferred tax assets for net operating loss (NOL) carryforwards of \$17.0 million at March 31, 2019 and \$17.7 million at September 30, 2018. We will continue to evaluate both the positive and negative evidence in determining the need for a valuation allowance with respect to our remaining state NOL carryforwards. Any reversal of the valuation allowance in future periods will impact our effective tax rate.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

CAPITAL RESOURCES AND LIQUIDITY

We have historically funded our operations with cash flows from operating activities, borrowings under bank credit facilities and the issuance of new debt securities. Our current levels of cash, borrowing capacity and balance sheet leverage provide us with the operational flexibility to adjust to changes in market conditions and allow us to increase our investments in homes, finished lots, land and land development to expand our operations and grow our revenues and profitability.

At March 31, 2019, our ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 27.9% compared to 26.3% at September 30, 2018 and 28.3% at March 31, 2018. Our ratio of homebuilding debt to total capital (homebuilding notes payable divided by stockholders' equity plus homebuilding notes payable) was 22.9% compared to 21.4% at September 30, 2018 and 24.2% at March 31, 2018. Over the long term, we intend to maintain our ratio of homebuilding debt to total capital below 35%, and we expect it to remain significantly lower than 35% throughout fiscal 2019. We believe that the ratio of homebuilding debt to total capital is useful in understanding the leverage employed in our homebuilding operations and comparing our capital structure with other homebuilders. We exclude the debt of Forestar and our financial services business because they are separately capitalized and not guaranteed by our parent company or any of our homebuilding entities.

We regularly assess our projected capital requirements to fund growth in our business, repay debt obligations, and support other general corporate and operational needs, and we regularly evaluate our opportunities to raise additional capital. D.R. Horton has an automatically effective universal shelf registration statement filed with the Securities and Exchange Commission (SEC) in August 2018, registering debt and equity securities that may be issued from time to time in amounts to be determined. Forestar also has an effective shelf registration statement filed with the SEC in September 2018, registering \$500 million of equity securities. As market conditions permit, we may issue new debt or equity securities through the capital markets or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity. We believe that our existing cash resources, revolving credit facilities, mortgage repurchase facility and ability to access the capital markets will provide sufficient liquidity to fund our near-term working capital needs and debt obligations.

Capital Resources - Homebuilding

Cash and Cash Equivalents — At March 31, 2019, cash and cash equivalents of our homebuilding segment totaled \$557.3 million.

Bank Credit Facility — We have a \$1.325 billion senior unsecured homebuilding revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$1.9 billion, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to approximately 50% of the revolving credit commitment. Letters of credit issued under the facility reduce the available borrowing capacity. The interest rate on borrowings under the revolving credit facility may be based on either the Prime Rate or London Interbank Offered Rate (LIBOR) plus an applicable margin, as defined in the credit agreement governing the facility. The maturity date of the facility is September 25, 2023. Borrowings and repayments under the facility were \$1.8 billion and \$1.0 billion, respectively, during the six months ended March 31, 2019. At March 31, 2019, there were \$750 million of borrowings outstanding at a 3.7% annual interest rate and \$128.0 million of letters of credit issued under the revolving credit facility, resulting in available capacity of \$447.0 million.

Our homebuilding revolving credit facility imposes restrictions on our operations and activities, including requiring the maintenance of a maximum allowable ratio of debt to tangible net worth and a borrowing base restriction if our ratio of debt to tangible net worth exceeds a certain level. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. The credit agreement governing the facility imposes restrictions on the creation of secured debt and liens. At March 31, 2019, we were in compliance with all of the covenants, limitations and restrictions of our homebuilding revolving credit facility.

Public Unsecured Debt — We have \$1.95 billion principal amount of homebuilding senior notes outstanding as of March 31, 2019 that mature from February 2020 through August 2023 . On March 1, 2019 , we repaid \$500 million principal amount of our 3.75% senior notes at maturity. The indenture governing our senior notes imposes restrictions on the creation of secured debt and liens. At March 31, 2019 , we were in compliance with all of the limitations and restrictions associated with our public debt obligations.

Repurchases of Common Stock — During the three and six months ended March 31, 2019 , we repurchased 2.0 million and 6.1 million shares, respectively, of our common stock for \$75.6 million and \$216.2 million .

Debt and Equity Repurchase Authorizations — Effective August 1, 2018 , our Board of Directors authorized the repurchase of up to \$500 million of debt securities and \$400 million of our common stock effective through September 30, 2019 . The full amount of the debt authorization was remaining at March 31, 2019 . Repurchases of common stock from August 1, 2018 through March 31, 2019 totaled \$240.7 million , reducing the stock repurchase authorization to \$159.3 million .

Capital Resources - Forestar

At March 31, 2019 , Forestar had cash and cash equivalents of \$66.4 million . In August 2018 , Forestar entered into a \$380 million senior unsecured bank credit facility. In September 2018 , Forestar filed an effective shelf registration statement with the SEC, registering \$500 million of equity securities. Forestar's ability to achieve its long-term growth objectives will depend on its ability to obtain financing in sufficient capacities. As market conditions permit, Forestar may issue new debt or equity securities through the capital markets or obtain additional bank financing to provide capital for future growth and additional liquidity. In April 2019 , Forestar raised capital through the issuance of senior notes as discussed below.

Bank Credit Facility — Forestar has a \$380 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$570 million , subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to the greater of \$100 million and 50% of the revolving credit commitment. Borrowings under the revolving credit facility are subject to a borrowing base based on Forestar's book value of its real estate assets and unrestricted cash. The maturity date of the facility is August 16, 2021 . The maturity date of the revolving credit facility may be extended by up to one year on up to three occasions, subject to the approval of lenders holding a majority of the commitments. At March 31, 2019 , there were \$35 million of borrowings outstanding at a 4.8% annual interest rate and \$3.8 million of letters of credit issued under the revolving credit facility.

The revolving credit facility includes customary affirmative and negative covenants, events of default and financial covenants. The financial covenants require Forestar to maintain a minimum level of tangible net worth, a minimum level of liquidity and a maximum allowable leverage ratio. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. At March 31, 2019 , Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

Letter of Credit Facility — Forestar has a secured letter of credit agreement that requires it to deposit cash as collateral with the issuing bank. At March 31, 2019 , letters of credit outstanding under the letter of credit facility totaled \$15.0 million , secured by \$15.7 million in cash, which is included in restricted cash in the consolidated balance sheet.

Unsecured Debt — Forestar has \$118.9 million principal amount of 3.75% convertible senior notes outstanding as of March 31, 2019 that are expected to be settled in cash upon their maturity at March 1, 2020 . In April 2019 , Forestar issued \$350 million principal amount of 8.0% senior notes pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The notes are due April 15, 2024 , with interest payable semi-annually, and represent unsecured obligations of Forestar. The annual effective interest rate of these notes after giving effect to the amortization of financing costs is 8.5% . These notes may be redeemed prior to maturity, subject to certain limitations and premiums defined in the indenture agreement.

Forestar's revolving credit facility, its senior notes and its convertible senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt.

Capital Resources - Financial Services

Cash and Cash Equivalents — At March 31, 2019 , cash and cash equivalents of our financial services operations totaled \$61.1 million .

Mortgage Repurchase Facility — Our mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties upon receipt of funds from the counterparties. DHI Mortgage then has the right and obligation to repurchase the purchased loans upon their sale to third-party purchasers in the secondary market or within specified time frames from 45 to 60 days in accordance with the terms of the mortgage repurchase facility. In February 2019 , the mortgage repurchase facility was amended to extend its maturity date to February 21, 2020 . The total capacity of the facility is \$600 million ; however, the capacity increases, without requiring additional commitments, to \$725 million for approximately 30 days at each quarter end and to \$800 million for approximately 45 days at fiscal year end. The capacity of the facility can also be increased to \$1.0 billion subject to the availability of additional commitments. Additional commitments were obtained to increase the capacity of the facility to \$800 million for approximately 30 days at the March 2019 quarter end.

As of March 31, 2019 , \$784.5 million of mortgage loans held for sale with a collateral value of \$759.4 million were pledged under the mortgage repurchase facility. DHI Mortgage had an obligation of \$690.7 million outstanding under the mortgage repurchase facility at March 31, 2019 at a 4.2% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. The facility contains financial covenants as to the mortgage subsidiary's minimum required tangible net worth, its maximum allowable ratio of debt to tangible net worth and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At March 31, 2019 , DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

In the past, DHI Mortgage has been able to renew or extend its mortgage credit facility at a sufficient capacity and on satisfactory terms prior to its maturity and obtain temporary additional commitments through amendments to the credit agreement during periods of higher than normal volumes of mortgages held for sale. The liquidity of our financial services business depends upon its continued ability to renew and extend the mortgage repurchase facility or to obtain other additional financing in sufficient capacities.

Operating Cash Flow Activities

In the six months ended March 31, 2019 , net cash used in operating activities was \$461.7 million compared to \$98.8 million in the prior year period. Cash used in operating activities in the current year period primarily consisted of \$215.9 million and \$287.8 million of cash used in our homebuilding and Forestar segments, respectively, partially offset by \$48.8 million of cash provided by our financial services segment.

We used \$755.2 million of cash to increase our construction in progress and finished home inventory compared to \$514.5 million in the prior year period. In both periods, the expenditures were made to support the current period increase in sales and closing volumes, as well as the expected increase in future periods. Cash used to increase residential land and lots in the current year period was \$445.6 million , of which \$341.8 million related to Forestar, compared to \$271.5 million in the prior year period, of which \$167.6 million related to Forestar. The most significant source of cash provided by operating activities in both periods was net income.

Investing Cash Flow Activities

In the six months ended March 31, 2019, net cash used in investing activities was \$321.1 million compared to cash provided by investing activities of \$31.4 million in the prior year period. The most significant investing uses of cash in the current year period were the purchases of the homebuilding operations of Westport Homes, Classic Builders and Terramor Homes, whereby \$309.6 million of the aggregate purchase price was paid during the current year period. Proceeds from the sale of assets in the current year period included \$73.4 million related to the sale of the first multi-family rental property constructed by DHI Communities. In the prior year period, we paid \$558.3 million to purchase 75% of the outstanding shares of Forestar, which had \$401.9 million of cash on the acquisition date. Proceeds from the sale of assets in the prior year period included \$228.6 million related to Forestar, primarily from the strategic sale of assets.

Financing Cash Flow Activities

We expect the short-term financing needs of our operations will be funded with existing cash, cash generated from operations and borrowings under our credit facilities. Long-term financing needs for the growth of our homebuilding and Forestar operations may be funded with the issuance of senior unsecured debt securities or equity securities through the capital markets.

During the six months ended March 31, 2019, net cash provided by financing activities was \$8.0 million, consisting primarily of note proceeds, largely offset by note repayments, repurchases of common stock and payments of cash dividends. Note proceeds of \$1.8 billion were due to draws on our revolving credit facilities. Note repayments of \$1.5 billion included repayments of amounts drawn on our homebuilding revolving credit facility of \$1.0 billion and repayment of \$500 million principal amount of our 3.75% senior notes at maturity. We also used cash of \$216.2 million to repurchase 6.1 million shares of our common stock and \$111.9 million to pay dividends to our common stockholders. During the six months ended March 31, 2018, net cash provided by financing activities was \$109.3 million, consisting primarily of note proceeds, partially offset by note repayments, payments of cash dividends and repurchases of common stock. Note proceeds of \$1.9 billion included draws of \$1.5 billion on our homebuilding revolving credit facility and our issuance of \$400 million principal amount of 2.55% senior notes due December 2020. Note repayments of \$1.8 billion included our early redemption of the \$400 million principal amount of our 3.625% senior notes due February 2018 and repayments of amounts drawn on our homebuilding revolving credit facility of \$1.3 billion. We also used cash to repurchase 1.0 million shares of our common stock for \$47.9 million during the prior year period.

During the three months ended March 31, 2019, our Board of Directors approved a quarterly cash dividend of \$0.15 per common share, which was paid on February 25, 2019 to stockholders of record on February 11, 2019. In April 2019, our Board of Directors approved a quarterly cash dividend of \$0.15 per common share, payable on May 28, 2019 to stockholders of record on May 13, 2019. Cash dividends of \$0.125 per common share were approved and paid in each quarter of fiscal 2018. The declaration of future cash dividends is at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, cash flows, capital requirements, financial condition and general business conditions.

CONTRACTUAL CASH OBLIGATIONS, COMMERCIAL COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Our primary contractual cash obligations are payments under our debt agreements and lease payments under operating leases. We expect to fund our contractual obligations in the ordinary course of business through a combination of our existing cash resources, cash flows generated from profits, our credit facilities or other bank financing, and the issuance of new debt or equity securities through the public capital markets as market conditions may permit.

At March 31, 2019, we had outstanding letters of credit of \$148.3 million and surety bonds of \$1.6 billion, issued by third parties to secure performance under various contracts. We expect that our performance obligations secured by these letters of credit and bonds will generally be completed in the ordinary course of business and in accordance with the applicable contractual terms. When we complete our performance obligations, the related letters of credit and bonds are generally released shortly thereafter, leaving us with no continuing obligations. We have no material third-party guarantees.

Our mortgage subsidiary enters into various commitments related to the lending activities of our mortgage operations. Further discussion of these commitments is provided in Item 3 “Quantitative and Qualitative Disclosures about Market Risk” under Part I of this quarterly report on Form 10-Q.

We enter into land and lot purchase contracts to acquire land or lots for the construction of homes. Lot purchase contracts enable us to control significant lot positions with limited capital investment. Among our homebuilding land and lot purchase contracts at March 31, 2019, there were a limited number of contracts, representing \$96.8 million of remaining purchase price, subject to specific performance provisions that may require us to purchase the land or lots upon the land sellers meeting their respective contractual obligations. Of this amount, \$50.9 million related to contracts between our homebuilding segment and Forestar. Further information about our land purchase contracts is provided in the “Homebuilding Inventories, Land and Lot Position and Homes in Inventory” section included herein.

CRITICAL ACCOUNTING POLICIES

As disclosed in our annual report on Form 10-K for the fiscal year ended September 30, 2018, our most critical accounting policies relate to revenue recognition, inventories and cost of sales, business acquisitions, goodwill, warranty claims, legal claims and insurance, income taxes, stock-based compensation and fair value measurements. Since September 30, 2018, there have been no significant changes to those critical accounting policies.

As disclosed in our critical accounting policies in our Form 10-K for the fiscal year ended September 30, 2018, our reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. At March 31, 2019 and September 30, 2018, we had reserves for approximately 160 and 155 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the six months ended March 31, 2019, we established reserves for approximately 50 new construction defect claims and resolved 45 construction defect claims for a total cost of \$5.4 million. At March 31, 2018 and September 30, 2017, we had reserves for approximately 135 and 140 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the six months ended March 31, 2018, we established reserves for approximately 45 new construction defect claims and resolved 50 construction defect claims for a total cost of \$12.3 million.

SEASONALITY

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again in the future, we generally close more homes and generate greater revenues and operating income in the third and fourth quarters of our fiscal year. The seasonal nature of our business can also cause significant variations in our working capital requirements in both our homebuilding and financial services operations. As a result of seasonal activity, our quarterly results of operations and financial position at the end of a particular fiscal quarter are not necessarily representative of the balance of our fiscal year.

Forward-Looking Statements

Some of the statements contained in this report, as well as in other materials we have filed or will file with the Securities and Exchange Commission (SEC), statements made by us in periodic press releases and oral statements we make to analysts, stockholders and the press in the course of presentations about us, may be construed as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management’s beliefs as well as assumptions made by, and information currently available to, management. These forward-looking statements typically include the words “anticipate,” “believe,” “consider,” “continue,” “could,” “estimate,” “expect,” “forecast,” “goal,” “intend,” “likely,” “may,” “outlook,” “plan,” “possible,” “potential,” “predict,” “projection,” “seek,” “should,” “strategy,” “target,” “will,” “would” or other words of similar meaning. Any or all of the forward-looking statements included in this report and in any other of our reports or public statements may not approximate actual experience, and the expectations derived from them may not be realized, due to risks, uncertainties and other factors. As a result, actual results may differ materially from the expectations or results we discuss in the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- the cyclical nature of the homebuilding industry and changes in economic, real estate and other conditions;
- constriction of the credit and public capital markets, which could limit our ability to access capital and increase our costs of capital;
- reductions in the availability of mortgage financing provided by government agencies, changes in government financing programs, a decrease in our ability to sell mortgage loans on attractive terms or an increase in mortgage interest rates;
- the risks associated with our land and lot inventory;
- our ability to effect our growth strategies, acquisitions or investments successfully;
- the impact of an inflationary, deflationary or higher interest rate environment;
- home warranty and construction defect claims;
- the effects of health and safety incidents;
- the effects of negative publicity;
- supply shortages and other risks of acquiring land, building materials and skilled labor;
- reductions in the availability of performance bonds;
- increases in the costs of owning a home;
- the effects of governmental regulations and environmental matters on our homebuilding and land development operations;
- the effects of governmental regulations on our financial services operations;
- our significant debt and our ability to comply with related debt covenants, restrictions and limitations;
- competitive conditions within the homebuilding and financial services industries;
- the effects of the loss of key personnel; and
- information technology failures and data security breaches.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. Additional information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained in our annual report on Form 10-K for the fiscal year ended September 30, 2018, including the section entitled “Risk Factors,” which is filed with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our long-term debt. We monitor our exposure to changes in interest rates and utilize both fixed and variable rate debt. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact the fair value of the debt instrument, but may affect our future earnings and cash flows. Except in very limited circumstances, we do not have an obligation to prepay fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair value would not have a significant impact on our cash flows related to our fixed-rate debt until such time as we are required to refinance, repurchase or repay such debt.

We are exposed to interest rate risk associated with our mortgage loan origination services. We manage interest rate risk through the use of forward sales of mortgage-backed securities, which are referred to as “hedging instruments” in the following discussion. We do not enter into or hold derivatives for trading or speculative purposes.

Interest rate lock commitments (IRLCs) are extended to borrowers who have applied for loan funding and who meet defined credit and underwriting criteria. Typically, the IRLCs have a duration of less than six months. Some IRLCs are committed immediately to a specific purchaser through the use of best-efforts whole loan delivery commitments, while other IRLCs are funded prior to being committed to third-party purchasers. The hedging instruments related to IRLCs are classified and accounted for as derivative instruments in an economic hedge, with gains and losses recognized in revenues in the consolidated statements of operations. Hedging instruments related to funded, uncommitted loans are accounted for at fair value, with changes recognized in revenues in the consolidated statements of operations, along with changes in the fair value of the funded, uncommitted loans. The fair value change related to the hedging instruments generally offsets the fair value change in the uncommitted loans. The net fair value change, which for the three and six months ended March 31, 2019 and 2018 was not significant, is recognized in current earnings. At March 31, 2019, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of \$1.2 billion. Uncommitted IRLCs totaled a notional amount of approximately \$663.9 million and uncommitted mortgage loans held for sale totaled a notional amount of approximately \$567.1 million at March 31, 2019.

The following table sets forth principal cash flows by scheduled maturity, effective weighted average interest rates and estimated fair value of our debt obligations as of March 31, 2019. Because the mortgage repurchase facility is effectively secured by certain mortgage loans held for sale that are typically sold within 60 days, its outstanding balance is included in the most current period presented. The interest rate for our variable rate debt represents the weighted average interest rate in effect at March 31, 2019.

	Six Months Ending September 30, 2019	Fiscal Year Ending September 30,						Total	Fair Value at March 31, 2019
		2020	2021	2022	2023	2024	Thereafter		
(\$ in millions)									
Debt:									
Fixed rate	\$ 3.1	\$ 696.4	\$ 403.3	\$ 350.0	\$ 700.0	\$ —	\$ —	\$ 2,152.8	\$ 2,208.2
Average interest rate	4.1%	3.8%	2.8%	4.5%	5.5%	—%	—%	4.3%	
Variable rate	\$ 690.7	\$ —	\$ 35.0	\$ —	\$ 750.0	\$ —	\$ —	\$ 1,475.7	\$ 1,475.7
Average interest rate	4.2%	—%	4.8%	—%	3.7%	—%	—%	3.9%	

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of March 31, 2019 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in reports filed by the Company under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, in such a manner as to allow timely decisions regarding the required disclosure.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

We are involved in lawsuits and other contingencies in the ordinary course of business. While the outcome of such contingencies cannot be predicted with certainty, we believe that the liabilities arising from these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds our estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

In fiscal 2013, our mortgage subsidiary was subpoenaed by the United States Department of Justice (DOJ) regarding the adequacy of certain underwriting and quality control processes related to Federal Housing Administration loans originated and sold in prior years. We have provided information related to these loans and our processes to the DOJ, and communications are ongoing. The DOJ has to date not asserted any formal claim amount, penalty or fine.

In May and July of 2014, we received Notices of Violation from the United States Environmental Protection Agency (EPA) related to stormwater compliance at certain of our sites in our Southeast region. This matter could potentially result in monetary sanctions to the Company; however, we do not believe it is reasonably possible that this matter would result in a loss that would have a material effect on our consolidated financial position, results of operations or cash flows.

In October 2018, we reached an agreement in principle with the EPA to settle an alleged violation of the wetlands provisions of the Clean Water Act at one of our development sites in our Southeast region. Upon finalizing the agreement in March 2019, we paid a penalty of \$267,000 without an admission of liability. We also are participating in settlement discussions with the U.S. Army Corps of Engineers (ACOE) and DOJ concerning alleged violations of the wetlands provisions of the Clean Water Act at another development site in our Southeast region relating to a violation notice the ACOE issued in April 2017. This matter could potentially result in a penalty that could range between \$100,000 and \$350,000 without an admission of liability, but the final scope of the potential penalty is not known at this time. We do not believe it is reasonably possible that this matter would result in a loss that would have a material effect on our consolidated financial position, results of operations or cash flows.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*Issuer Purchases of Equity Securities*

We may repurchase shares of our common stock from time to time pursuant to our common stock repurchase authorization. The following table sets forth information concerning our common stock repurchases during the three months ended March 31, 2019. All share repurchases were made in accordance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934.

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1) (In millions)
January 1, 2019 - January 31, 2019	—	\$ —	—	\$ 234.9
February 1, 2019 - February 28, 2019	2,000,000	37.84	2,000,000	159.3
March 1, 2019 - March 31, 2019	—	—	—	159.3
Total	2,000,000	\$ 37.84	2,000,000	\$ 159.3

(1) Shares purchased during the three months ended March 31, 2019 were part of a \$400 million common stock repurchase authorization approved by our Board of Directors effective from August 1, 2018 through September 30, 2019. At March 31, 2019, there was \$159.3 million remaining on the repurchase authorization.

ITEM 6. EXHIBITS

(a) Exhibits.

- 2.1 [Agreement and Plan of Merger dated June 29, 2017 by and among D.R. Horton, Inc., Force Merger Sub, Inc. and Forestar Group Inc. \(1\)](#)
- 3.1 [Certificate of Amendment of the Amended and Restated Certificate of Incorporation, as amended, of the Company dated January 31, 2006, and the Amended and Restated Certificate of Incorporation, as amended, of the Company dated March 18, 1992. \(2\)](#)
- 3.2 [Amended and Restated Bylaws of the Company. \(3\)](#)
- 10.1 [Amendment No. 8 to Credit Agreement, dated February 15, 2019 by and among the Registrant, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein. \(*\)](#)
- 10.2 [Sixth Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 22, 2019, among DHI Mortgage Company, Ltd., U.S. Bank National Association, as Administrative Agent, Sole Book Runner, Lead Arranger, and a Buyer, and all other Buyers. \(4\)](#)
- 31.1 [Certificate of Chief Executive Officer provided pursuant to Section 302\(a\) of the Sarbanes-Oxley Act of 2002. \(*\)](#)
- 31.2 [Certificate of Chief Financial Officer provided pursuant to Section 302\(a\) of the Sarbanes-Oxley Act of 2002. \(*\)](#)
- 32.1 [Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company's Chief Executive Officer. \(*\)](#)
- 32.2 [Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company's Chief Financial Officer. \(*\)](#)
- 101 The following financial statements from D.R. Horton, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed on April 30, 2019, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Total Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements. (*)

* Filed herewith.

- (1) Incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K dated June 29, 2017, filed with the SEC on June 29, 2017.
- (2) Incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the SEC on February 2, 2006.
- (3) Incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 2, 2017, filed with the SEC on November 8, 2017.
- (4) Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 22, 2019, filed with the SEC on February 22, 2019.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

D.R. HORTON, INC.

Date: April 30, 2019

By: /s/ Bill W. Wheat

Bill W. Wheat, on behalf of D.R. Horton, Inc.,
as Executive Vice President and Chief Financial Officer
(Principal Financial and Principal Accounting Officer)

AMENDMENT NO. 8

AMENDMENT NO. 8, dated as of February 15, 2019 (this “**Agreement**”), to the Credit Agreement dated as of September 7, 2012, as amended prior to the date hereof (as so amended, the “**Credit Agreement**”), among D.R. HORTON, INC., a Delaware corporation (the “**Borrower**”), MIZUHO BANK, LTD., as successor administrative agent (in such capacity, the “**Administrative Agent**”), and the Lenders party thereto. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement.

WHEREAS, the Credit Agreement has previously been amended on November 1, 2012, August 8, 2013, August 22, 2014, June 18, 2015, August 26, 2015, September 25, 2017 and September 25, 2018;

WHEREAS, the Borrower, the Administrative Agent and the Lenders party hereto desire to amend the Credit Agreement in accordance with Section 9.2 thereof; and

NOW, THEREFORE, in consideration of the premises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Amendment. Subject to the occurrence of the Amendment Effective Date (as defined below), Section 1.1 of the Credit Agreement is hereby amended by replacing the definition of “Publicly Traded Debt Securities” set forth therein with the following:

“Publicly Traded Debt Securities” means (i) any issue of debt securities of the Borrower issued under the Indenture, dated as of May 1, 2012 or the Indenture dated as of June 9, 1997 and (ii) any other issue of debt securities of the Borrower or any Subsidiary (other than Forestar Group Inc. and its Subsidiaries) originally issued in a public offering registered with the SEC or in an offering pursuant to Rule 144A under the Securities Act and of which issue at least \$50 million aggregate principal amount is outstanding.

Section 2. Representations and Warranties. The Borrower represents and warrants as of the date hereof and the Amendment Effective Date (before and after giving effect to this Agreement) that:

- (a) the representations and warranties contained in *Article VI* of the Credit Agreement are true and correct in all material respects on the date hereof and the Amendment Effective Date (except (i) to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct in all material respects on and as of such earlier date and (ii) to the extent already qualified by materiality, in which case said representations and warranties are true and correct in all respects); and
- (b) no Default or Unmatured Default (i) has occurred and is continuing on the date hereof or the Amendment Effective Date or (ii) exists or would exist after giving effect to this Agreement.

Section 3. Conditions to Effectiveness. This Agreement shall become effective on the date (such date, the “**Amendment Effective Date**”) on which each of the following conditions is satisfied or waived:

- (a) The Administrative Agent shall have received on or prior to the Amendment Effective Date, this Agreement executed by the Required Lenders, the Borrower and the Administrative Agent.
 - (b) There shall have been paid to the Administrative Agent all expenses (including reasonable fees and expenses of one counsel to the Administrative Agent) due and payable on or before the Amendment Effective Date and invoiced at least two Business Days prior to the Amendment Effective Date.
-

Section 4. **Expenses; Indemnification**. The Borrower confirms that Section 10.6 of the Credit Agreement applies to this Agreement and the transactions contemplated hereby for the benefit of the Administrative Agent.

Section 5. **Counterparts**. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original, but all of which when taken together shall constitute a single instrument. Delivery of an executed counterpart of a signature page of this Agreement by facsimile transmission or by email in Adobe “.pdf” format shall be effective as delivery of a manually executed counterpart hereof.

Section 6. **Applicable Law**. THIS AGREEMENT SHALL BE GOVERNED BY, CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 7. **Headings**. The headings of this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

Section 8. **Effect of Agreement**. Except as expressly set forth herein, this Agreement shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. As of the Amendment Effective Date, each reference in the Credit Agreement to “ *this Agreement* ,” “ *hereunder* ,” “ *hereof* ,” “ *herein* ,” or words of like import, and each reference in the other Loan Documents to the Credit Agreement (including, without limitation, by means of words like “ *thereunder* ,” “ *thereof* ” and words of like import), shall mean and be a reference to the Credit Agreement as amended hereby, and this Agreement and the Credit Agreement shall be read together and construed as a single instrument; *provided , however* , that nothing herein shall be interpreted to change the date of the Credit Agreement. This Agreement shall constitute a Loan Document.

Section 9. **Acknowledgement and Affirmation**. The Borrower hereby (i) expressly acknowledges the terms of the Credit Agreement as amended hereby, (ii) ratifies and affirms after giving effect to this Agreement its obligations under the Loan Documents (including Guaranty Agreements (as defined in the Credit Agreement)) executed by the Borrower and (iii) after giving effect to this Agreement acknowledges renews and extends its continued liability under all such Loan Documents and agrees such Loan Documents remain in full force and effect.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

D.R. HORTON, INC.

By: /s/ Bill W. Wheat

Name: Bill W. Wheat

Title: Executive Vice President and Chief Financial Officer

[D.R. Horton - Amendment No. 8]

MIZUHO BANK, LTD.
as Lender

By: /s/ Raymond Ventura
Name: Raymond Ventura
Title: Managing Director

[D.R. Horton - Amendment No. 8]

BANK OF AMERICA, N.A.,
as Lender

By: /s/ Michael J. Kauffman
Name: Michael J. Kauffman
Title: Vice President

[D.R. Horton - Amendment No. 8]

BANK OF THE WEST,
as Lender

By: /s/ Clifford L. Rooke
Name: Clifford L. Rooke
Title: Managing Director, Real Estate

[D.R. Horton - Amendment No. 8]

BRANCH BANKING AND TRUST COMPANY,
as Lender

By: /s/ Sarah Salmon
Name: Sarah Salmon
Title: Senior Vice President

[D.R. Horton - Amendment No. 8]

CITIBANK, N.A.,
as Lender

By: /s/ Michael Vondriska
Name: Michael Vondriska
Title: Vice President

[D.R. Horton - Amendment No. 8]

COMERICA BANK,
as Lender

By: /s/ Casey L. Stevenson
Name: Casey L. Stevenson
Title: Vice President

[D.R. Horton - Amendment No. 8]

FIRST HAWAIIAN BANK,
as Lender

By: /s/ Todd T. Nitta
Name: Todd T. Nitta
Title: Senior Vice President

[D.R. Horton - Amendment No. 8]

JPMORGAN CHASE BANK, N.A.,
as Lender

By: /s/ Chiara Carter
Name: Chiara Carter
Title: Executive Director

[D.R. Horton - Amendment No. 8]

PNC BANK, NATIONAL ASSOCIATION,
as Lender

By: /s/ J. Richard Litton
Name: J. Richard Litton
Title: Senior Vice President

[D.R. Horton - Amendment No. 8]

REGIONS BANK,
as Lender

By: /s/ Randall S. Reid
Name: Randall S. Reid
Title: Senior Vice President

[D.R. Horton - Amendment No. 8]

SUNTRUST BANK,
as Lender

By: /s/ Nick Preston
Name: Nick Preston
Title: Director

[D.R. Horton - Amendment No. 8]

THE TORONTO-DOMINION BANK, NEW YORK BRANCH, as Lender

By: /s/ Michael Borowiecki
Name: Michael Borowiecki
Title: Authorized Signatory

[D.R. Horton - Amendment No. 8]

U.S. BANK NATIONAL ASSOCIATION,
as Lender

By: /s/ Gregory N. Kaye
Name: Gregory N. Kaye
Title: Senior Vice President

[D.R. Horton - Amendment No. 8]

WELLS FARGO BANK, N.A.,
as Lender

By: /s/ Elena Bennett
Name: Elena Bennett
Title: Senior Vice President

[D.R. Horton - Amendment No. 8]

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, David V. Auld, certify that:

1. I have reviewed this quarterly report on Form 10-Q of D.R. Horton, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2019

/s/ DAVID V. AULD

By: _____
David V. Auld
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, Bill W. Wheat, certify that:

1. I have reviewed this quarterly report on Form 10-Q of D.R. Horton, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2019

/s/ B ILL W. W HEAT

By: Bill W. Wheat
Executive Vice President and
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of D.R. Horton, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David V. Auld, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2019

/s/ DAVID V. AULD

By: David V. Auld
President and Chief Executive Officer

Woodhull Ventures 2015 LP

Balance Sheet

As of December 31, 2018

	Dec 31, 18
ASSETS	
Current Assets	
Checking/Savings	
10000 · Woodhull Ventures 2015 LP	2,588,229.91
Total Checking/Savings	2,588,229.91
Total Current Assets	2,588,229.91
Other Assets	
19000 · Work In Process	
19033 · Interest Exp- Scholz 12%	877,190.11
19032 · Interest Exp- Belzberg 12%	888,478.55
19031 · Property Tax - Rollback	201,283.47
19008 · Electric	8,950.00
16000 · Land	7,044,270.00
19001 · Legal/Due Diligence	827,594.64
19002 · Planning Fees	684,256.83
19003 · Amenity Center	1,522,262.15
19004 · Bank Fees	906.90
19005 · Initial Investment in Woodhull	25,000.00
19006 · Office Supplies	1,534.33
19007 · HOA Fees	110,000.00
19010 · Marketing	43,038.67
19011 · Engineering	3,282,695.73
19012 · Fencing & Other Equipment	31,410.07
19013 · Insurance	28,710.41
19014 · Lender Fee - Pencor	310,299.41
19016 · Settlement Charges	132,444.84
19019 · Professional Fees	321,506.20
19020 · G & A	1,392,838.00
19022 · Property Tax	315,085.39
19023 · MUD Formation	7,693.71
19024 · Construction Costs	25,454,055.43
19025 · RV....Auto Expense	484.48
19026 · Interest Exp- Belzberg 8%	30,488.58
19027 · Interest Exp- Scholz 8%	29,277.60
19028 · Loan Interest- BCMP Mortgage	1,505,055.99
19030 · Water Fees	579,634.31
19035 · Water Availability Fee	17,745.00
19050 · Broker Commission	100,000.00
19060 · Sewer Connection Fee	195,820.00
Total 19000 · Work In Process	45,970,010.80
19500 · Contra COGS - Lot Sales	
19575 · Contra COGS-Pacesetter 12/21/18	-8,781,081.50
19570 · Contra COGS-Lennar 12/20/18	-4,714,967.66
19565 · Contra COGS-Continenta 11/16/18	-1,824,827.66
19560 · Contra COGS-Lennar 11/15/18	-3,939,480.76
19555 · Contra COGS-Pacesetter 11/15/18	-2,489,276.09
19545 · Contra COGS-Gehan 10/18/18	-2,203,797.99
19550 · Contra COGS-Chesmar 11/02/18	-2,950,415.00
19506 · Contra COGS - Pacesstr Dev Fees	-14,400.00
19505 · Contra COGS - Sale Rmb Wtr Fees	-252,000.00
19510 · Contra COGS - Pacesstr 04-21-16	-3,312,860.14
19515 · Contra COGS - Century 06-26-17	-1,836,787.16
19520 · Contra COGS - Chesmar 06-28-17	-2,756,326.91
19525 · Contra COGS - Century 09-08-17	-1,475,339.41
19530 · Contra COGS - Pacesstr 10-25-17	-2,372,786.73
19535 · Contra COGS-Castlerock 04/21/18	-3,772,638.96
19540 · Contra COGS - Century 06/29/18	-5,989,755.12
Total 19500 · Contra COGS - Lot Sales	-48,686,741.09

Woodhull Ventures 2015 LP

Balance Sheet

As of December 31, 2018

05/23/19

Accrual Basis

	Dec 31, 18
19900 · Escrow/Finished Lot Funds	
19920 · Finishe Lot Fund-Ph 12/13 Pace	4,058,000.00
19910 · Finished Lot Funds-Ph. 6	464,614.00
Total 19900 · Escrow/Finished Lot Funds	4,522,614.00
Total Other Assets	1,805,883.71
TOTAL ASSETS	4,394,113.62
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
20000 · Accounts Payable	248,005.08
Total Accounts Payable	248,005.08
Other Current Liabilities	
24100 · Due to Shamrock Communities	100.00
21200 · Pre-Closing Loans	
21250 · Loan - Gibralt Capital - 8%	82,500.00
21250.1 · Accrd. Int. - Gibralt 8% loans	30,488.58
22250 · Loan - Scholz 8%	82,500.00
22250.1 · Accrd. Int. - Scholz 8% loans	30,282.29
Total 21200 · Pre-Closing Loans	225,770.87
Total Other Current Liabilities	225,870.87
Total Current Liabilities	473,875.95
Long Term Liabilities	
21500 · Post Closing - Long Term Loans	
21510 · Gibralt Loan 12%	1,078,784.85
21510.1 · Accrued Interest- Gibralt 12%	887,473.86
21525 · Scholz - 12% Loan	1,078,784.83
21525.1 · Accrued Interest- Scholz 12%	877,190.11
Total 21500 · Post Closing - Long Term Loans	3,922,233.65
Total Long Term Liabilities	3,922,233.65
Total Liabilities	4,396,109.60
Equity	
30300 · Capital - Woodhull Inv. 2015 LP	-998.00
30200 · Capital - Thomas J. Rielly	-398.99
30100 · Capital - Gibralt US, Inc.	-598.99
Total Equity	-1,995.98
TOTAL LIABILITIES & EQUITY	4,394,113.62

Woodhull Ventures 2015 LP

Profit & Loss

January through December 2018

	<u>Jan - Dec 18</u>
Ordinary Income/Expense	
Income	
46750 · Sale-Pacesetter 12/21/18	8,820,000.00
49000 · Sale-Continental Homes 11/16/18	1,836,000.00
48250 · Sale-Lennar Homes 11/15/18	3,960,000.00
46500 · Sale-Pacesetter 11/15/18	2,503,800.00
43250 · Sale -Chesmar Homes 11/02/18	2,967,000.00
44250 · Sale- Century Land 6/29/18	6,020,350.00
48500 · Sale - Lennar Homes 12/20/18	4,740,100.00
47250 · Sale - Gehan Homes Ltd 10/18/18	2,216,419.00
47000 · Sale-Castlerock Comm . 4/12/18	3,795,000.00
Total Income	<u>36,858,669.00</u>
Cost of Goods Sold	
52300 · COGS-Pacesetter Ph. 6 11/15/18	2,503,800.00
52500 · COGS-Pacesetter Ph 12/13	8,820,000.00
52400 · COGS-Continental Homes Phase 3	1,836,000.00
52050 · COGS -Lennar P2C/2D 11/15/18	3,960,000.00
52200 · COGS-Chesmar Phase 5 11/02/19	2,967,000.00
52100 · COGS -Lennar Homes P4 12/20/18	4,740,100.00
50900 · COGS - Castlerock 04/12/18	3,795,000.00
51000 · COGS -Century Ph 2B/2E 06/29/18	6,020,350.00
52000 · COGS - Gehan Ph 3 10/18/18	2,216,419.00
Total COGS	<u>36,858,669.00</u>
Gross Profit	<u>0.00</u>
Net Ordinary Income	<u>0.00</u>
Net Income	<u><u>0.00</u></u>

APPENDIX C
Form of Bond Counsel Opinion

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

**SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX BONDS, SERIES 2019
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$5,925,000**

AS BOND COUNSEL FOR SOUTHEAST WILLIAMSON COUNTY MUNICIPAL UTILITY DISTRICT NO. 1 (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on July 30, 2019 authorizing the issuance of the Bonds (the "Order").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

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



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

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

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

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



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

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

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

Respectfully,

APPENDIX D
Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

