OFFICIAL STATEMENT DATED SEPTEMBER 13, 2022

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

NEW ISSUE – BOOK-ENTRY-ONLY

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

$3,000,000
LEANDER MUNICIPAL UTILITY DISTRICT NO. 1
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX ROAD BONDS, SERIES 2022

Dated: October 13, 2022 **Due: August 15, as shown on the inside cover page**
Interest to accrue from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the Leander Municipal Utility District No. 1 Unlimited Tax Road Bonds, Series 2022 (the "Bonds") will accrue from the Date of Initial Delivery (defined below), will be payable February 15, 2023 and each August 15 and February 15 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 BOKF, NA, Dallas, Texas (the "Paying Agent"). The Bonds are obligations solely of the Leander Municipal Utility District No. 1 (the "District") and are not obligations of the City of Leander, Texas (the "City" or "Leander"); Liberty Hill Independent School District; Williamson County, Texas (the "County"); the State of Texas (the "State"); or any entity other than the District.

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

PURPOSE . . . The proceeds of the Bonds will be used to finance road improvements within the District. The remaining Bond proceeds will be used to: (i) capitalize approximately sixteen months' interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay other costs associated with the issuance of the Bonds.

CUSIP PREFIX: 52184H
MATURITY SCHEDULE
See inside cover page

REDEMPTION PROVISIONS . . . The District reserves the right to redeem, prior to maturity, in integral multiples of $5,000, those Bonds maturing on and after August 15, 2028 in whole or from time to time in part, on August 15, 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. See "THE BONDS – Redemption." Additionally, Term Bonds maturing on August 15 in the years 2034, 2036, 2038, 2040 and 2046 are subject to mandatory sinking fund redemption. See "THE BONDS – Mandatory Sinking Fund Redemption."

LEGALITY . . . The Bonds are offered by 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.

DELIVERY . . . Delivery of the Bonds is expected through the facilities of DTC on October 13, 2022 (the "Date of Initial Delivery").

MATURITY SCHEDULE

8/15 Maturity	Principal Amount	Interest Rate[a]	Initial Yield[b]	CUSIP Numbers[c]
2024	$ 75,000	4.000%	3.500%	52184HAZ4
2025	75,000	4.000%	3.700%	52184HBA8
2026	80,000	4.000%	3.800%	52184HBB6
2027	85,000	4.000%	3.900%	52184HBC4
2028	90,000	4.000%	4.050%	52184HBD2
2029	95,000	4.125%	4.150%	52184HBE0
2030	95,000	4.250%	4.250%	52184HBF7
2031	100,000	4.250%	4.300%	52184HBG5
2032	105,000	4.375%	4.400%	52184HBH3

$230,000 4.500%[a] Term Bonds due August 15, 2034 Priced to Yield 4.500%[b] – 52184HBK6[c]
$255,000 4.600%[a] Term Bonds due August 15, 2036 Priced to Yield 4.600%[b] – 52184HBM2[c]
$280,000 4.700%[a] Term Bonds due August 15, 2038 Priced to Yield 4.700%[b] – 52184HBP5[c]
$310,000 4.750%[a] Term Bonds due August 15, 2040 Priced to Yield 4.800%[b] – 52184HBR1[c]
$1,125,000 5.000%[a] Term Bonds due August 15, 2046 Priced to Yield 5.000%[b] – 52184HBX8[c]

(Interest to accrue from the Date of Initial Delivery)

(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 97.500% of par, resulting in a net effective interest rate to the District of 4.9590417%.

(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 (as herein defined). 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. None of the Initial Purchaser, the District, or 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.

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

This Official Statement does not 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."

Any reference to website addresses represented herein are for information purposes only and may be in the form of a hyperlink solely for the readers' convenience. Unless specified otherwise, such websites and the information on links contained therein are not incorporated into, and are not part of, this Official Statement.

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.

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.

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

SALE AND DISTRIBUTION OF THE BONDS

AWARD OF THE BONDS . . . After requesting competitive bids for the Bonds, the District has accepted the bid of RBC Capital Markets (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 97.500% 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.

PRICES AND MARKETABILITY . . . The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the 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 municipal utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market. Additionally, there are no assurances that if a secondary market for the Bonds were to develop, that it will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

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

SECURITIES LAWS . . . No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; 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.

NO MUNICIPAL BOND RATING

The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. No application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance.

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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 including the Appendices attached hereto. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement (including the Appendices attached hereto).

THE DISTRICT

THE DISTRICT..... Leander Municipal Utility District No. 1 (the "District"), is a political subdivision of the State of Texas (the "State"), created by an order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), on August 26, 2013 and confirmed pursuant to an election held within the District on May 10, 2014. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water; distributing potable water; collecting and treating wastewater; providing and operating park and recreational facilities; and providing roadway facilities; and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended. See "THE DISTRICT – General."

LOCATION..... The District, which encompasses approximately 296.861 acres of land, is located approximately 3 miles northeast of the central business district of the City of Leander (the "City" or "Leander") in western Williamson County, Texas (the "County"). The District lies generally west of Ronald Reagan Boulevard and north of the South Fork of the San Gabriel River. Major access to the District is provided by Ronald Reagan Blvd. to Bar W Ranch Boulevard. The District is located wholly within the extraterritorial jurisdiction of Leander. See "THE DISTRICT – Location."

THE DEVELOPER ..... The developer currently active within the District is Continental Homes of Texas, L.P. (the "Developer"), a wholly-owned subsidiary of, and doing business as, D.R. Horton, Inc. See "THE DEVELOPER – Description of Developer" and "THE DISTRICT – Current Status of Development."

DEVELOPMENT WITHIN THE DISTRICT ..... Of the 296.861 acres within the District, approximately 193.5 are developable under current land development regulations. As of June 1, 2022, approximately 146.511 acres (or 74.47% of the developable acreage within the District) have been or are being developed with utility facilities as the single-family residential subdivision of Bar W Ranch West. As of June 1, 2022, the development in the District consisted of 448 developed single-family lots, comprised of 161 completed homes, 204 homes under construction, and 83 vacant single-family lots. See "THE DISTRICT – Current Status of Development."

HOMEBUILDER..... According to the Developer, there is currently one homebuilder active within the District: D.R. Horton building homes which range in price from the mid $473,000 to $682,990. See "THE DEVELOPER – Homebuilders within the District."

COVID-19 PANDEMIC..... To date, the District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or similar virus should there be a reversal of economic activity and reimpositions of restrictions. See "RISK FACTORS – Infectious Disease Outlook (COVID-19)."

THE BONDS

DESCRIPTION..... The Bonds in the aggregate principal amount of $3,000,000 mature as serial Bonds in varying amounts on August 15 of each year from 2024 through 2032 and as Term Bonds maturing on August 15 in the years 2034, 2036, 2038, 2040 and 2046 as set forth on the inside cover page hereof. Interest accrues from the Date of Initial Delivery and is payable February 15, 2023 and each August 15 and February 15 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 August 15, 2028, in whole or from time to time in part, on August 15, 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. See "THE BONDS – Redemption." Additionally, Term Bonds maturing on August 15 in the years 2034, 2036, 2038, 2040 and 2046 are subject to mandatory sinking fund redemption. See "THE BONDS – Mandatory Sinking Fund Redemption."

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

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

AUTHORITY FOR ISSUANCE ..... The Bonds are issued pursuant to Article III, Section 52 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 November 3, 2015; and an order adopted by the Board of Directors of the District (the "Board") on the date of the sale of the Bonds. See "THE BONDS – Authority for Issuance."

USE OF PROCEEDS ..... The proceeds of the Bonds will be used to finance road improvements within the District. The remaining Bond proceeds will be used to: (i) capitalize approximately sixteen months' interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay other costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

BONDS AUTHORIZED BUT UNISSUED ..... At an election held within the District on November 3, 2015, the voters within the District approved the issuance of $17,623,701 in bonds for the acquisition and construction of road improvements. The Bonds constitute the first installment of bonds issued by the District for such purpose. After the sale of the Bonds, the District will have $14,623,701 remaining in authorized but unissued road bonds. Additionally, at the election held in the District on November 3, 2015, the voters within the District approved the issuance of Unlimited Tax Bonds in the aggregate principal amount of $86,752,097 for refunding bonds all of which remains authorized but unissued; $32,376,365 in aggregate principal amount of new money bonds for the purpose of acquiring or constructing water, sewer and drainage facilities; $28,806,365 of which remains authorized but unissued; and $7,834,665 in aggregate principal amount of new money bonds for the purpose of park and recreational facilities; all of which remains authorized but unissued. See "FINANCIAL STATEMENT – Outstanding Bonds" and "THE BONDS – Issuance of Additional Debt."

MUNICIPAL BOND RATING AND INSURANCE .... The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. No application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance.

TAX EXEMPTION ..... In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal tax purposes under existing law, subject to matters described in "TAX MATTERS."

QUALIFIED TAX-EXEMPT OBLIGATIONS ..... The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2022 is not reasonably expected to exceed $10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."

BOND COUNSEL	McCall, Parkhurst & Horton L.L.P., Austin, Texas
GENERAL COUNSEL	Armbrust & Brown, PLLC, Austin, Texas
FINANCIAL ADVISOR	Specialized Public Finance Inc., Austin, Texas
ENGINEER	Carlson Brigance & Doering, Inc., Austin, Texas

RISK FACTORS

The purchase and ownership of the Bonds involve certain risk factors 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 as of August 9, 2022)

2020 Certified Taxable Assessed Valuation	$	9,482,658	(a)
2021 Certified Taxable Assessed Valuation	$	19,102,623	(a)
2022 Certified Taxable Assessed Valuation	$	70,852,439	(a)
Gross Direct Debt Outstanding of the District (after issuance of the Bonds)	$	6,770,000	
Ratio of Gross Direct Debt to 2022 Certified Taxable Assessed Valuation		9.56%	
2022 Tax Rate			
Debt Service	$	0.4000	
Maintenance and Operations		0.6000	
Total 2021 Tax Rate	$	1.0000	(b)
General Fund Balance (as of August 9, 2022)	$	403,557	
Debt Service Fund Balance (as of August 9, 2022)	$	334,078	(c)
Capital Project Fund Balance (as of August 9, 2022)	$	97,426	
Average Annual Debt Service Requirement of the Bonds ("Average Requirement") (2022-2046)	$	431,882	
Tax Rate required to pay Average Requirement based upon 2022 Certified Taxable Assessed Valuation at 95% collections	$	0.6417/$100 AV	
Maximum Annual Debt Service Requirement of the Bonds ("Maximum Requirement") (2043)	$	470,925	
Tax Rate required to pay Maximum Requirement based upon 2022 Certified Taxable Assessed Valuation at 95% collections	$	0.6997/$100 AV	

Number of homes and lots as of June 1, 2022:

Total Completed Lots	448
Occupied Completed Homes	161
Homes Under Construction	204
Vacant Lots	83
Estimated Population as of June 1, 2022	564[d]

(a) Certified Taxable Assessed Valuation of the District certified by the Williamson Central Appraisal District ("WCAD"). See "TAXING PROCEDURES."

(b) The District levied a 2021 total tax rate of $1.00 at the District's Board meeting in September 2021. See "TAXING PROCEDURES."

(c) Unaudited as of August 9, 2022. Does not include approximately sixteen months of capitalized interest ($186,393) which is projected to be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.

(d) Based upon 3.5 residents per completed and occupied single-family home.

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OFFICIAL STATEMENT
relating to

$3,000,000
LEANDER MUNICIPAL UTILITY DISTRICT NO. 1
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX ROAD BONDS, SERIES 2022

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Leander Municipal Utility District No. 1 (the "District"), a political subdivision of the State of Texas (the "State"), of its $3,000,000 Unlimited Tax Road Bonds, Series 2022 (the "Bonds").

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District (the "Board") on the date of the sale of the Bonds (the "Bond Order"), pursuant to Article III, Section 52 of the Constitution and the general laws of the State, including Chapters 49 and 54 of the Texas Water Code, as amended; and a bond election held within the District on November 3, 2015.

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

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

THE BONDS

GENERAL DESCRIPTION . . . The Bonds will bear interest from the Date of Initial Delivery and will mature on August 15 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will accrue from the Date of Initial Delivery, will be paid on February 15, 2023 and each August15 and February 15 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Dallas, Texas (the "Paying Agent" or "Paying Agent/Registrar").

REDEMPTION . . . The Bonds maturing on and after August 15, 2028 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on August 15, 2027, or on any date thereafter, in integral multiples of $5,000, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

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

MANDATORY SINKING FUND REDEMPTION . . . The Bonds maturing on August 15 in the years 2034, 2036, 2038, 2040 and 2046 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity in the following amounts, on the following dates and at a price of par to the date of redemption:

Term Bonds Due August 15, 2034	
Redemption Date	Principal Amount
August 15, 2033	$ 110,000
August 15, 2034*	120,000

Term Bonds Due August 15, 2036	
Redemption Date	Principal Amount
August 15, 2035	$ 125,000
August 15, 2036*	130,000

Term Bonds Due August 15, 2038	
Redemption Date	Principal Amount
August 15, 2037	$ 135,000
August 15, 2038*	145,000

Term Bonds Due August 15, 2040	
Redemption Date	Principal Amount
August 15, 2039	$ 150,000
August 15, 2040*	160,000

Term Bonds Due August 15, 2046	
Redemption Date	Principal Amount
August 15, 2041	$ 165,000
August 15, 2042	175,000
August 15, 2046	185,000
August 15, 2044	190,000
August 15, 2045	200,000
August 15, 2046*	210,000

*Stated Maturity.

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

Notice of Redemption . . . At least 30 calendar days prior to the date fixed for any 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.

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

SELECTION OF BONDS FOR REDEMPTION . . . If less than all of the Bonds are called for redemption, the particular Bonds, sinking fund installments in the case of Term 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 or sinking fund installment to be redeemed (provided that a portion of a Bond may be redeemed only in integral multiples of $5,000

principal amount); provided, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity, or sinking fund installment in the case of Term Bonds, and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity, such interest rate and such sinking fund installment in the case of the Term Bonds shall be selected in accordance with the arrangements between the District and the securities depository.

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

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

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

Payment . . . Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in 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 shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

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

Limitation on Transfer of Bonds . . . Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the last (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 November 3, 2015, voters within the District authorized the issuance of a total of $17,623,701 in Unlimited Tax Road Bonds for the construction and acquisition of road improvements. The Bonds constitute the first installment of bonds for such purpose. After the sale of the Bonds, $14,623,701 principal amount of District bonds will remain authorized but unissued for road improvements. Additionally, at the election held in the District on November 3, 2015, the voters within the District approved the issuance of Unlimited Tax Bonds in the aggregate principal amount of $86,752,097 for refunding bonds all of which remains authorized but unissued; $32,376,365 in aggregate principal amount of new money bonds for the purpose of acquiring or constructing water, sewer and drainage facilities; $8,806,365 of which remains authorized but unissued; and $7,834,665 in aggregate principal amount of new money bonds for the purpose of park and recreational facilities; 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 III, Section 52 of the Texas Constitution.

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

The Bonds are obligations solely of the District and are not obligations of Leander; Liberty Hill Independent School District; the County; the State; or any political subdivision or entity other than the District.

PAYMENT RECORD . . . The Bonds constitute the second installment of bonds issued by the District.

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

Debt Service Fund . . . The Bond Order establishes the Debt Service Fund to be used to pay principal and interest on and Paying Agent fees in respect to the Bonds. The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the Initial Purchaser, the amount received from proceeds of the Bonds representing accrued interest, if any, and 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 the road improvements, then it is in the discretion of the Board to transfer such unexpended proceeds or income to the Debt Service Fund or to utilize such funds as otherwise authorized by the law.

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

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

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

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

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

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board 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 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 ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last day of the preceding month (whether or not a business day).

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, in some instances, the approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. On November 3, 2015, voters within the District authorized the issuance of Unlimited Tax Bonds in the principal amounts of $32,376,365 for the purpose of providing water, wastewater, and drainage facilities to meet the needs of the residents and customers of the District. At present, $28,606,365 in Unlimited Tax Bonds authorized by the District voters will remain authorized but unissued for water, wastewater and drainage facilities. See "FINANCIAL STATEMENT – Authorized But Unissued Bonds." Additionally, at the election held in the District on November 3, 2015, the voters within the District approved the issuance of Unlimited Tax Bonds in the aggregate principal amount of $86,752,097 for refunding bonds all of which remains authorized but unissued; $17,623,701 in aggregate principal amount of new money bonds for the purpose of acquiring or constructing road facilities; $14,623,701 of which will remain authorized but unissued after the issuance of the Bonds; and $7,834,665 in aggregate principal amount of new money bonds for the purpose of park and recreational facilities; all of which remains authorized but unissued. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the Bonds. See "RISK FACTORS."

According to the District's engineer, the $28,606,365 in principal amount of bonds remaining authorized but unissued after issuance of the Bonds should be sufficient to reimburse the Developer for the water, wastewater and drainage facilities required for development within the District and $14,623,701 should be sufficient to reimburse the Developer for road improvements within the District. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue refunding bonds, as well as revenue bonds and notes without voter approval. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

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

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

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

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

REMEDIES IN EVENT OF DEFAULT . . . The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, which failure materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the default continues for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion

of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the 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 is located entirely within the extraterritorial jurisdiction of Leander. Under Texas law, a municipality may annex and dissolve a municipal utility district located within its extraterritorial jurisdiction without consent of the district subject to compliance by the municipality with various requirements of Chapter 43 of the Texas Local Government Code ("Chapter 43"). Under chapter 43, (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 it he are to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation; and (b) a municipality may annex a district with a population of 200 residents or more only if: (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation. Notwithstanding the foregoing, a municipality may annex an area if each owner of land in the area request the annexation. As of June 1, 2022, the District had an estimated population of 564, thus triggering the voter approval and/or landowner consent requirements discussed in clause (b) above. The described election and petition process may 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 serve payments on the Bonds should such dissolution occur.

Pursuant to the "Agreement Regarding Consent to Creation of Municipal Utility Districts and Development of the Wedemeyer Ranch" effective December 30, 2008 (the "Consent Agreement"), Leander retains the unilateral discretion to decide whether to annex or dissolve the District, in whole or in part, provided that Leander agrees that, if it makes such decision to annex or to dissolve a District, in whole or in part, Leander shall do so only in the event of an uncured default by the Developer and/or the District;

otherwise Leander may annex or dissolve that District in compliance with state law, no earlier than the earlier to occur of one of the following events: (i) fifteen (15) years after the Effective Date of the Consent Agreement; (ii) ten (10) years after the date that the District first issues bonds; (iii) at least ninety percent (90%) by dollar amount of the total park, road, water, wastewater and drainage facilities for which the District bonds may be authorized ("requisite percentage of District facilities") have been constructed or (iv) Developer has been fully reimbursed by that District for such requisite percentage of the District's facilities in accordance with the rules of TCEQ.

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 simultaneously annexing land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District will effect any change in its boundaries.

APPROVAL OF THE BONDS . . . The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement. Additionally, the District is subject to certain requirements in connection with the issuance of the Bonds pursuant to the Consent Agreement (as defined herein) with Leander. The District has complied with the requirements under the Consent Agreement applicable to the issuance of the Bonds, which by their terms are to be complied with prior to such issuance.

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.

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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.

USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance road improvements within the District. The remaining Bond proceeds will be used to: (i) capitalize approximately sixteen months' interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay other costs associated with the issuance of the Bonds.

The estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, $2,022,297 is estimated to be required for construction costs, and $977,703 is estimated to be required for non-construction costs, including $186,393 of capitalized interest (approximately sixteen months' interest estimated at 4.96%).

		District's Share
I.	**CONSTRUCTION COSTS**	
	A. Developer Contribution Items - None	
	B. District Items	
	1. Bar W Ranch West Phase 1 Section 1 – Road Improvements	$ 1,592,297
	2. Bar W Ranch West Phase 1 Section 1- Bar W Blvd Road Improvements	430,000
	Total District Costs	$ 2,022,297
Total Construction Costs (67.4% of BIR)		**$ 2,022,297**
II.	**NON-CONSTRUCTION COSTS**	
	A. General Counsel	$ 45,000
	B. Fiscal Agent Fees	52,500
	C. Bond Counsel Fees	45,000
	D. Interest:	
	1. Capitalized Interest (16 months at 4.96%)	186,393
	2. Developer Interest	373,205 (a)
	E. Bond Discount (3.00%)	75,000
	F. Bond Issuance Expenses	23,998
	G. Bond Engineering Fee	15,000
	H. Attorney General Fee (0.10%)	3,000
	I. Contingency	158,607
Total Non-Construction Costs		**$ 977,703**
TOTAL BOND ISSUE REQUIREMENT		**$ 3,000,000**

(a) Calculated at 4.96%. The amount of developer interest will be finalized in connection with the reimbursement report approved by the Board prior to disbursement of funds.

RISK FACTORS

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

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

INFECTIOUS DISEASE OUTBREAK (COVID-19) . . . In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State of Texas (the "State") because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State of Texas. The Governor retains the right to impose additional restrictions on activities, if needed, to mitigate the effects of COVID-19. Additional information regarding the executive orders issued by the Governor is accessible on the website of the Governor at https://www.gov/tex.gov/. Neither the information on, nor accessed through, such website of the Governor is incorporated by referenced in this Official Statement.

The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

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

FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS . . . ***Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:*** A substantial percentage of the taxable value of the District results from the current market value of single-family residences 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 the Developer 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 numerous and 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. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economies.

National Economy: Nationally, in the past there have been periods of significant downturn in new housing construction due to the lack of liquidity and other factors, resulting in a decline in housing market values. The ability of individuals to qualify for a mortgage as well as the general reduction in mortgage availability has also decreased housing sales periodically. The Austin area, including the District, has in the past periodically experienced reduced levels of home construction and home sales activity. The District cannot predict what impact, if any, a downturn in the national housing and financial markets may have on the Central Texas market and 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 Austin that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

The competitive position of the Developer in the sale of developed lots and of prospective homebuilders within the District in the construction of single-family residential houses is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Dependence Upon Developer and Homebuilders: The Developer is the principal taxpayer in the District. The growth of the tax base is dependent upon additional construction of homes within the District. The Developer is under no obligation to continue to market for improvement of developed tracts of land. Thus, the furnishing of information related to the proposed development by the Developer should not be interpreted as such a commitment by the Developer. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer, the homebuilders within the District or other entities to whom such parties may sell all or a portion of their holdings within the District to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts or failure of the Developer to develop its land would restrict the rate of growth of taxable value in the District. See "THE DISTRICT – Current Status of Development," and "THE DEVELOPER."

Developer 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 developer 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 DEVELOPER" and "SELECTED FINANCIAL INFORMATION – Principal Taxpayers."

Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2022 Certified Taxable Assessed Valuation reported by WCAD is $70,852,439 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be $470,925 (2043) and the Average Annual Debt Service Requirement will be $431,882 (2022-2046, inclusive). Based on the 2022 Certified Taxable Assessed Valuation of $70,852,439 reported by WCAD, a tax rate of $0.6997/$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement, and a tax rate of $0.6417/$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA – Tax Adequacy for Debt Service."

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

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

BANKRUPTCY LIMITATION TO REGISTERED OWNERS' RIGHTS . . . ***District Bankruptcy:*** 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.

Developer Bankruptcy: In the event of bankruptcy of the Developer within the District, it is possible the District could experience volatility in the ad valorem tax rate established by the District as well as a disruption in the timing of receipt of ad valorem taxes from any such bankrupt entities.

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, attorneys 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.

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

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 June 1, 2022, approximately 146.511 acres of land within the District have been developed with utility facilities by the Developer. According to information obtained by Carlson Brigance & Doering, Inc., (the "District's Engineer"),

the Developer will still be owed approximately $10 million in construction costs plus engineering fees and Developer interest expended to develop utility facilities after the issuance of the Bonds.

Therefore, the Developer will be 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 DEVELOPER – Utility Development Agreement." 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, in some instances, 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 may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. On November 3, 2015, voters within the District authorized the issuance of Unlimited Tax Road Bonds in the principal amounts of $32,376,365 for the purpose of providing water, wastewater, and drainage facilities to meet the needs of the residents and customers of the District. The Bonds constitute the first installment of bonds issued by the District. Following the issuance of the Bonds, $28,606,365 in Unlimited Tax Road Bonds authorized by the District voters will remain authorized but unissued for water, wastewater and drainage facilities. See "FINANCIAL STATEMENT – Authorized But Unissued Bonds."

The District has reserved in the Bond Order the right to issue the remaining $28,606,365 in authorized but unissued water, wastewater and drainage facilities bonds and such additional bonds as may hereafter be approved by both the Board and voters of the District. All of the remaining $28,606,365 water, wastewater and drainage facilities bonds may be issued by the District from time to time for qualified purposes, as determined by the Board, subject to the approval of the Attorney General of the State and the TCEQ, and subject to certain approvals to of Leander. Additionally, at the election held in the District on November 3, 2015, the voters within the District approved the issuance of Unlimited Tax Bonds in the aggregate principal amount of $86,752,097 for refunding bonds all of which remains authorized but unissued; $17,623,701 in aggregate principal amount of new money bonds for the purpose of acquiring or constructing road facilities; $14,623,701 of which will remain authorized but unissued after the issuance of the Bonds; and $7,834,665 in aggregate principal amount of new money bonds for the purpose of park and recreational facilities; all of which remains authorized but unissued. In the opinion of the District's engineer, the remaining authorization should be sufficient to reimburse the Developer for the water, wastewater, drainage and road facilities required to serve development within the District. See "THE SYSTEM."

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

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

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

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring remedial action to prevent or mitigate pollution; and
- 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 municipal utility district or other type of 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 districts. 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, Williamson, 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 expanded the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands.

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal became final on December 23, 2019.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule ("NWPR"), which contains a new definition of "waters of the United States." The stated purpose of the NWPR is to restore and maintain the integrity of the nation's

waters by maintaining federal authority over the waters Congress has determined should be regulated by a federal government, while preserving the states' primary authority over land and water resources. The new definition outlines four categories of waters that are considered "waters of the United States," and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not "waters of the United States," and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direction response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain waterfilled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) wastewater treatment systems. The NWPR became effective on June 22, 2020, and is currently the subject of ongoing litigation.

On June 9, 2021, the EPA and USACE announced plans to further revise the definition of "waters of the United States." On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. On November 18, 2021, the EPA and USACE issued a Notice Proposed Rulemaking to put back into place the pre-2015 definition of "waters of the United States." Due to existing and possible future litigation and regulatory action, there remains uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

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

FUTURE AND PROPOSED LEGISLATION . . . The Texas Legislature convenes in regular session for 140 days on the second Tuesday in January of odd-numbered years. Thereafter the Governor may call one or more special sessions. During this time, the Texas Legislature may enact laws that materially change current law relating to districts including with respect to the levy of property taxes. The District makes no representation regarding any action the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to the District.

DROUGHT CONDITIONS . . . Central Texas, like other areas of the State, has experienced drought conditions within the last several years. The District has adopted a water conservation plan. Leander provides water to the District in amounts sufficient to service the residents of the District, however, as drought conditions emerge water usage and rates could be impacted.

STORM WATER . . . In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States ("Atlas 14"). Flood plain boundaries within the District may be redrawn based on the Atlas 14 study based on higher statistical rainfall amount, resulting in interim flood plain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulation could additionally result in higher insurance rates, increased development fees, and stricture building codes for any property located within the expanded boundaries of the flood plain. See "THE SYSTEM – 100-Year Flood Plain."

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

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

THE DISTRICT

GENERAL . . . The District, along with Leander Municipal Utility District No. 2 and Leander Municipal Utility District No. 3, are part of a Master Planned Community known as Bar W Ranch. The Bar W Ranch development will include single-family development together with parks and recreational facilities to serve the community. The District, a political subdivision of the State, was created by order of the TCEQ on August 26, 2013, and operates pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and collect and treat wastewater. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water and the construction of roadway facilities. Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code, certain districts, such as the District, may issue bonds, subject to approval by the voters in the district and the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of water, wastewater and drainage. The District may also establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ.

MANAGEMENT . . . ***Board of Directors.*** The District is governed by the Board, consisting of five directors, which has control over and management supervision of all affairs of the District. The members of the Board serve staggered four-year terms, with elections held within the District on the second Saturday in May in each even numbered year. All of the members of the board reside or own property in the District.

Name	Title	Term Expires
Will Withers	President	2026
Brooke Evans	Vice President	2026
Dennis Hendrix	Secretary	2024
Ryan W. Kasten	Asst. Secretary	2024
Scott Kiella	Asst. Secretary	2026

CONSULTANTS . . . *Tax Assessor/Collector.* Land and improvements in the District are being appraised by the Williamson Central Appraisal District ("WCAD"). Pursuant to written contract, the County's Tax Assessor/Collector, Mr. Larry Gaddes, currently serves as the Tax Assessor/Collector for the District.

Bookkeeper. Bott & Douthitt, P.L.L.C ("B&D") is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 65 other special districts.

Engineer. The District's consulting engineer is Carlson Brigance & Doering, Inc. (the "Engineer"). Such firm serves as consulting engineer to numerous other special districts in central Texas.

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

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

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

LOCATION . . . The District, which encompasses approximately 296.861 acres of land, is located approximately 3 miles northeast of the central business district of the City located in the western portion of the County. The District lies generally west of Ronald Reagan Boulevard and north of the South Fork of the San Gabriel River. Major access to the District is provided by Ronald Reagan Blvd. to Bar W Ranch Boulevard. The District is located wholly within the extraterritorial jurisdiction of the City. See "LOCATION MAP."

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CURRENT STATUS OF DEVELOPMENT . . . The District contains approximately 296.861 acres of land.

As of June 1, 2022, the development in the District consisted of: 448 developed single-family lots, which consists of 161 completed homes, 204 homes under construction, 83 vacant single-family lots and an amenity center.

The chart below reflects the status of development as of June 1, 2022:

			Single Family		
	Net Acreage	Lots	Completed Homes	Homes Under Construction	Vacant Lots
A. Sections Developed or being Developed with Utility Facilities					
Bar W Ranch West, Phases 1, 3 and 6	146.511	450	161	204	83
Total Developed or Under Construction	**146.511**	**450**	**161**	**204**	**83**
B. Remaining Developable Acreage	46.980				
C. Undevelopable/Floodplain	103.370				
Total	**296.861**				

FUTURE DEVELOPMENT . . . The remaining undeveloped but developable 46.98 acres in the District are expected to be developed as additional residential sections of the Bar W Ranch development. The initiation 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 any party's ability to sell lots and/or other 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 District's water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues, if any, of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the $28,606,365 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 remaining undeveloped but potentially developable acres within the District. Similarly, the remaining $14,623,701 remaining principal amount of voted road bonds, after the issuance of the Bonds, should be sufficient to reimburse the Developer for expected road costs. 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 its sole discretion. Accordingly, the District makes no representation that future development will occur.

ANNEXATION OF THE DISTRICT . . . The District lies entirely within the extraterritorial jurisdiction of Leander. See "THE BONDS – Annexation" for a discussion of the ability of Leander to annex the District.

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THE DEVELOPER

GENERAL . . . In general, the activities of a 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 third 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 treatment 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 any specific bond issue, 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 it 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 DEVELOPER . . . The developer currently active within the District is Continental Homes of Texas, L.P., a Texas limited partnership (the "Developer"), which is a wholly-owned subsidiary of, and doing business as, D.R. Horton, Inc. See "THE DISTRICT – Current Status of Development."

ACQUISITION AND DEVELOPMENT FINANCING . . . According to the Developer, development financing for the Bar W Ranch development will come from corporate advances by D.R. Horton.

HOMEBUILDER WITHIN THE DISTRICT . . . According to the Developer, there is currently one homebuilder active within the District: D.R. Horton building homes which range in price from $473,000 to $682,990.

AGRICULTURAL EXEMPTION . . . Certain of the undeveloped acreage within the District is subject to an agricultural exemption; however, the Developer has executed an agreement, recorded in the real property records of the County, which waived the right to have the land within the District classified as agricultural, open-space or timberland, or to claim inventory valuation with respect to such acreage for purposes of District taxes. This waiver agreement is a covenant encumbering and running with all of the land within the District, and binding on purchasers of the land subject thereto.

UTILITY CONSTRUCTION AGREEMENTS . . . The District and Howard Barkley Wedemeyer ("Wedemeyer") previously entered into a "Utility and Park Facility Construction Agreement" dated November 13, 2015 (as amended or assigned, the "Wedemeyer Utility Reimbursement Agreement") and a "Road Improvements Construction Reimbursement Agreement" dated November 13, 2015 (as amended or assigned, the "Wedemeyer Road Reimbursement Agreement" and, together with the Wedemeyer Utility Reimbursement Agreement, the "Wedemeyer Reimbursement Agreements") governing the construction of water, wastewater, drainage, and road facilities on land owned by Wedemeyer within the District and the reimbursement of certain of those costs through the issuance of bonds by the District. The Wedemeyer Reimbursement Agreements have been amended from time-to-time to remove property as it is sold to third parties. Currently, the Wedemeyer Reimbursement Agreement covers approximately 155.028 acres of land in the District. Under the terms of the Wedemeyer Reimbursement Agreements, Wedemeyer is to receive 100% any bond proceeds issued under the Wedemeyer Reimbursement Agreements.

The District, BWR Partners, LLC, a Texas limited liability company ("BWR"), Wedemeyer, and Straub Services, LLC, a Texas limited liability company ("Straub") previously entered into an "Amended and Restated Utility and Park Facility Construction Agreement" dated April 19, 2017 (as amended and assigned, the "BWR Utility Reimbursement Agreement") and an "Amended and Restated Road Improvements Construction & Reimbursement Agreement" dated April 19, 2017 (as amended and assigned, the "BWR Road Reimbursement Agreement" and, collectively with the BWR Utility Reimbursement Agreement, the "BWR Reimbursement Agreements"), both of which govern the construction of water, wastewater, drainage, and road facilities, as applicable, on approximately 72.809 acres of land within the District to be developed as Phase 1 and the reimbursement of certain of the costs of such construction through the issuance of bonds by the District. Pursuant to assignments and amendments executed on September 6, 2018 and February 24, 2021, BWR and Straub assigned certain rights and obligations under the BWR Reimbursement Agreements to the Developer and BWR-JJD Investments, LLC, a Texas limited liability company ("BWR-JJD"). Under the terms of the BWR Reimbursement Agreements, Wedemeyer is to receive 3%, BWR-JJD is to receive 15% (less $209,000 out of the District's first bond issuance), and the Developer is to receive 82% (plus $209,000 out of the District's first bond issuance) of any reimbursements from bond proceeds under the BWR Reimbursement Agreements.

The District, BWR Land Holdings 80, LLC, a Texas limited liability company ("BWR 80"), Wedemeyer, Straub, and BWR previously entered into a "Utility and Park Facility Construction Agreement" dated effective December 16, 2019 (as amended and assigned, the "BWR 80 Utility Reimbursement Agreement") and a "Road Improvements Construction and Reimbursement Agreement" dated effective December 16, 2019 (as amended and assigned, the "BWR 80 Road Reimbursement Agreement" and, collectively with the BWR 80 Utility Reimbursement Agreement, the "BWR 80 Reimbursement Agreements"), governing the construction of water, wastewater, drainage, and road facilities on approximately 40.959 acres of land within the District to be developed as Phase 3 and the reimbursement of certain of those costs through the issuance of bonds by the District. Pursuant to "Amended and Restated Assignments of Obligations and Reimbursement Rights and Consent (Leander MUD 1 Phase 3 Property)" each dated February 24, 2021, certain rights and obligations of BWR 80 under the BWR 80 Reimbursement Agreements were

assigned to Developer and the BWR 80 Utility Reimbursement Agreement was revised to exclude any reimbursements for a shared amenity center to be constructed by the Developer within a portion of Phase 3 pursuant to the terms of a separate "Shared Amenity Center Construction and Reimbursement Agreement" between Wedemeyer, Developer, the District, Leander Municipal Utility District No. 2, and Leander Municipal Utility District No. 3 (collectively, the "Districts") dated February 24, 2021 (the "Amenity Center Reimbursement Agreement"). Under the terms of the BWR 80 Reimbursement Agreements, Wedemeyer is to receive 3%, Straub is to receive 15%, and BWR 80 is to receive 82% of any reimbursements from bond proceeds under the BWR 80 Reimbursement Agreements. Under the terms of the Amenity Center Reimbursement Agreement, Wedemeyer is to receive 3% and the Developer is to receive 97% of any reimbursements from bond proceeds under the Amenity Center Reimbursement Agreement.

The District, the Developer, Wedemeyer, Straub, BWR, and BWR-JJD previously entered into a "Utility and Park Facility Construction Agreement" dated April 9, 2021 (as amended or assigned, the "Horton Utility Reimbursement Agreement") and a "Road Improvements Construction Reimbursement Agreement" dated April 9, 2021 (as amended or assigned, the "Horton Road Reimbursement Agreement" and, together with the Horton Utility Reimbursement Agreement, the "Horton Reimbursement Agreements") governing the construction of water, wastewater, drainage, and road facilities on any portion of an approximately 356.272 acre tract of land proposed to be developed as Phases 5-11 that is located within the District, acquired by Developer, BWR, or BWR-JJD, and that is added to the Horton Reimbursement Agreements by amendment, and the reimbursement of certain of those costs through the issuance of bonds by the District. Pursuant to amendments executed on April 9, 2021, the Horton Reimbursement Agreements were amended to include approximately 26.727 acres of land within the District proposed to be developed as Phase 6. Under the terms of the Horton Reimbursement Agreements, Wedemeyer is to receive 3%, BWR-JJD is to receive 48.5%, and the Developer is to receive 48.5% from bond proceeds under the Horton Utility Reimbursement Agreements.

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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 the Bonds, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ, the County and the City. 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 District's waterworks and wastewater facilities is subject to regulation by, among others, the EPA and the TCEQ.

WATER SUPPLY . . . Retail water service for the District is provided by Leander. Pursuant to the "Amended and Restated Agreement Regarding Consent to Creation of Leander Municipal Utility Districts No. 1, 2 and 3 and Development of the Bar W Ranch," effective September 17, 2015 (as may be amended and/or assigned from time to time, the "Consent and Development Agreement"), Leander has agreed to provide retail water service to the residents of the District at in-city rates, with the exception that impact fees are also assessed by Leander for each service connection.

Water supply for Leander is sourced from Lake Travis under contract with the Lower Colorado River Authority. The cities of Leander, Cedar Park and Round Rock partnered together and formed the Brushy Creek Regional Utility Authority ("BCRUA") to provide regional long term treatment and delivery of water from Lake Travis to the three cities. Leander has a 30 MGD reserved capacity in the BCRUA surface water treatment plant, which is planned to have an ultimate treatment capacity of 106 million gallons per day ("MGD"). Leander delivers potable water to the District via a 24-inch water transmission main located along Ronald Reagan Boulevard.

Upon project completion and acceptance by Leander, the District conveys ownership of the District's water facilities to Leander for operation and maintenance.

WASTEWATER COLLECTION AND TREATMENT . . . Retail wastewater service for the District is provided by Leander pursuant to the Consent and Development Agreement. The City has agreed to provide retail wastewater service to the residents of the District at in-city rates, with the exception that impact fees are also assessed by the City for each service connection.

Leander has entered into an interlocal contract with the City of Liberty Hill ("Liberty Hill") for wholesale wastewater capacity from Liberty Hill which allows Leander to provide retail wastewater service to the District. Liberty Hill owns and operates the South San Gabriel Wastewater Treatment Plant (Liberty Hill Regional Wastewater Treatment Facility as referenced by TCEQ) which has an ultimate capacity of 4.0 MGD and operates under TCEQ Permit No. WQ0014477001. Wastewater from the District is collected internally to a lift station within the District and conveyed via force main directly to Liberty Hill's wastewater treatment plant. Upon project completion and acceptance by Leander, the District conveys ownership of the District's water facilities to Leander for operation and maintenance.

STORM WATER DRAINAGE . . . Natural drainage patterns generally slope from the District west/southwest toward the South Fork of the San Gabriel River. Storm-water runoff is collected by curb and gutter streets which tie into a system of underground storm sewer lines leading to detention/water quality ponds which outfall into the South Fork of the San Gabriel River. No storm-drainage facilities are being funded in this bond issue. The District is located within the Edwards Aquifer Contributing Zone and Recharge Zone and is subject to the TCEQ's Edwards Aquifer Rules.

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 Engineer, the Flood Insurance Rate Map (Firm Map No. 48491C0455E and 48491C0455F) associated with the District indicates that 73.974 acres are located within the 100-year flood plain and are not developable. See "THE DISTRICT – Land Use" and "RISK FACTORS – Environmental Regulations – Atlas 14 Study."

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

DEBT SERVICE REQUIREMENTS

TABLE 1 – DEBT SERVICE SCHEDULE

Fiscal Year Ended 9/30	Existing Debt			The Bonds			Total Debt Service
	Principal	Interest	Total	Principal	Interest[a]	Total	
2022	$ -	$ 41,722	$ 41,722	$ -	$ -	$ -	$ 41,722
2023	-	124,131	124,131	-	116,786	116,786	240,917
2024	105,000	124,131	229,131	75,000	139,215	214,215	443,346
2025	110,000	120,981	230,981	75,000	136,215	211,215	442,196
2026	115,000	117,681	232,681	80,000	133,215	213,215	445,896
2027	120,000	113,656	233,656	85,000	130,015	215,015	448,671
2028	125,000	109,456	234,456	90,000	126,615	216,615	451,071
2029	125,000	105,081	230,081	95,000	123,015	218,015	448,096
2030	130,000	101,331	231,331	95,000	119,096	214,096	445,428
2031	135,000	97,431	232,431	100,000	115,059	215,059	447,490
2032	140,000	93,381	233,381	105,000	110,809	215,809	449,190
2033	150,000	89,006	239,006	110,000	106,215	216,215	455,221
2034	155,000	84,319	239,319	120,000	101,265	221,265	460,584
2035	160,000	79,475	239,475	125,000	95,865	220,865	460,340
2036	165,000	74,275	239,275	130,000	90,115	220,115	459,390
2037	170,000	68,913	238,913	135,000	84,135	219,135	458,048
2038	180,000	63,388	243,388	145,000	77,790	222,790	466,178
2039	185,000	57,538	242,538	150,000	70,975	220,975	463,513
2040	190,000	51,525	241,525	160,000	63,850	223,850	465,375
2041	200,000	45,350	245,350	165,000	56,250	221,250	466,600
2042	205,000	38,850	243,850	175,000	48,000	223,000	466,850
2043	215,000	31,675	246,675	185,000	39,250	224,250	470,925
2044	220,000	24,150	244,150	190,000	30,000	220,000	464,150
2045	230,000	16,450	246,450	200,000	20,500	220,500	466,950
2046	240,000	8,400	248,400	210,000	10,500	220,500	468,900
	$ 3,770,000	$ 1,882,297	$ 5,652,297	$ 3,000,000	$ 2,144,750	$ 5,144,750	$ 10,797,047

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

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TABLE 2 – TAXABLE ASSESSED VALUE

2020 Certified Taxable Assessed Valuation	$	9,482,658	(a)
2021 Certified Taxable Assessed Valuation	$	19,102,623	(a)
2022 Certified Taxable Assessed Valuation	$	70,852,439	(a)
Gross Direct Debt Outstanding (after issuance of the Bonds)	$	6,770,000	
2021 Tax Rates:			
Debt Service	$	0.3500	
Maintenance and Operations	$	0.6500	
Total	$	1.0000	(b)
General Fund Balance (as of August 9, 2022)	$	403,557	
Debt Service Fund Balance (as of August 9, 2022)	$	334,078	(c)
Capital Project Fund Balance (as of August 9, 2022)	$	97,426	
Ratio of Gross Direct Debt to 2022 Certified Taxable Assessed Valuation		9.56%	

Area of District: 296.861 Acres
Estimated Population as of June 1, 2022: 564 (d)

(a) Certified Taxable Assessed Valuation of the District certified by the Williamson Central Appraisal District ("WCAD"). See "TAXING PROCEDURES."
(b) The District levied a 2021 total tax rate of $1.00 at the District's Board meeting in September 2021. See "TAXING PROCEDURES."
(c) Unaudited as of August 9, 2022. Does not include approximately sixteen months of capitalized interest ($186,393) which is projected to be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.
(d) Based upon 3.5 residents per completed and occupied single-family home.

TABLE 3 – UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Water, Sewer, Drainage	11/3/2015	$ 32,376,365	$ 3,770,000	$ -	$ 28,606,365
Road Bonds	11/3/2015	17,623,701	-	3,000,000	14,623,701
Park and Recreational Facilities	11/3/2015	7,834,665	-	-	7,834,665
Refunding	11/3/2015	86,752,097	-	-	86,752,097
Total		$ 144,586,828	$ 3,770,000	$ 3,000,000	$ 137,816,828

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 or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "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 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; (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 the 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; (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 third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; 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 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.

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.

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 7/31/2022
Williamson County	$ 1,133,590,000	0.02%	$ 226,718
Liberty Hill ISD	485,874,710	0.43%	2,089,261
Williamson County ESD #4	-	0.43%	
The District	6,770,000	100.00%	6,770,000 [(a)]
Total Direct and Overlapping Tax Supported Debt			$ 9,085,979
Ratio of Direct and Overlapping Tax Supported Debt to 2022 Certified TAV			12.82%

(a) Includes the Bonds.

TAX DATA

TABLE 4 – TAX RATE AND COLLECTIONS

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

Fiscal Year Ended 9/30	Tax Rate	Maintenance and Operations	Debt Service	Taxable Assessed Valuation[(a)]	Tax Levy	% Total Collections
2020	$ 1.0000	$ 1.0000	$ -	$ 3,563,971	$ 35,640	100.00%
2021	1.0000	1.0000	-	9,482,658	94,827	100.00%
2022	1.0000	0.6500	0.3500	19,102,623	191,026	99.28% [(b)]

(a) Assessed Valuation reflects the certified value as reported by the Williamson Central Appraisal District.
(b) Unaudited. Collections through February 28, 2022.

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

MAINTENANCE TAX . . . The Board 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 November 3, 2015, voters within the District authorized a maintenance tax not to exceed $1.50/$100 assessed valuation. As shown above under "Table 3 – Taxable Assessed Value," the District levied a 2021 maintenance and operation tax of $0.6500/$100 assessed valuation. See "THE DISTRICT – General."

TABLE 5 – PRINCIPAL TAXPAYERS

The following list of principal taxpayers was provided by the Williamson Central Appraisal District based on the 2022 tax roll of the District, which reflect ownership as of January 1 of each year shown.

Taxpayer	Taxable Assessed Value	% of 2022 Taxable Assessed Valuation
Continental Homes of Texas LP	$ 10,159,599	14.34%
Continental Homes of Texas LP dba DR Horton	5,309,886	7.49%
Continental Homes of Texas LP	3,372,687	4.76%
Chowdhury, Salim & Maria	496,042	0.70%
Joseph, Lovey & Benny	478,523	0.68%
Ranga, Adithya & Disha	477,712	0.67%
Chowdhury, Salim & Maria	475,549	0.67%
Saripalli, Siva Rama Raju	471,622	0.67%
Kondeti, Venkata & Monica	468,905	0.66%
Srivastava, Utkarsh & Kritika	468,905	0.66%
	$ 22,179,430	31.30%

TAX ADEQUACY FOR DEBT SERVICE

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2022 Certified Taxable Assessed Valuation 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 – Impact on District Tax Rates."

Average Annual Debt Service Requirements on the Bonds (2022-2046)	$ 431,882
$0.6417 Tax Rate on 2022 Certified Taxable Assessed Valuation of $70,852,439 @ 95% collections	$ 431,927
Maximum Annual Debt Service Requirements on the Bonds (2043)	$ 470,925
$0.6997 Tax Rate on 2022 Certified Taxable Assessed Valuation of $70,852,439 @ 95% collections	$ 470,967

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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 . . . The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State, 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 an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Travis Central Appraisal District has the responsibility for appraising property for all taxing units within the County, including the District. Such appraisal values are subject to review and change by the Williamson Central Appraisal Review Board (the "Appraisal Review Board").

PROPERTY SUBJECT TO TAXATION BY THE DISTRICT . . . Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between $5,000 and $12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. A person who owns property located in an area declared by the Governor to be a disaster area following a disaster is entitled to a temporary exemption from ad valorem taxation by the District of a portion of the appraised value of that property. State law requires such exemption adopted by the District to specify the disaster to which the exemption pertains and be adopted not later than the 60th day after the date the Governor first declares territory in the taxing unit to be a disaster area as a result of the disaster, amongst other requirements.

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 if the exemption is adopted by the governing body of the political subdivision before July 1. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

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

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

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

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

The Property Tax Code requires the WCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the WCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the WCAD or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the WCAD chooses formally to include such values on its appraisal roll.

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

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

LEVY AND COLLECTION OF TAXES . . . The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By August 15 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to

defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

TAX PAYMENT INSTALLMENTS . . . Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE . . . 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. 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 "Other Districts." The impact each classification has on the ability of a district to increase its maintenance and operations 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 the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

Developed Districts

Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, 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 the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor 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.

Other Districts

The qualified voters of Other Districts will have the right to petition for an election to reduce the operation and maintenance tax rate only if the Other District adopts 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. If an election is called and passes, the total tax rate is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

The District

The District has been classified as a Developing District for the 2021 tax year. A determination as to the District's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis each year prior to the adoption of the tax rate for the applicable year. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and result in different rollback tax rate and election procedures.

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 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 – Estimated Overlapping Debt Statement." 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" ("FIRREA") contains provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

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

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

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon a review of Existing Law and the representation 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"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

(determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

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

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

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

Interest on the Bonds may be includable in certain corporation's "adjusted financial statement income" determined under Section 56A of the Code to calculate the alternative minimum tax imposed by Section 55 of the Code.

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 foreign investors, 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. 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 disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial

institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate "issuers) who issues no more than $10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 5 and in APPENDIX B, if such audited financial statements as provided in APPENDIX B 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 B 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 (10) 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 the 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 obligations of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar event under the terms of a financial obligation of the obliged person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meaning ascribed to them under federal securities laws.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer of the District in a proceeding under the United States Bankruptcy Court or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers of the District in possession but subject to the supervision and orders of a court of governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

For the purposes of the events described in clauses (15) and (16) of the preceding paragraph, the term "Financial Obligation" is defined in the Bond Order to mean (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, and existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The Bond Order further provides that the District intends the words in such clauses (15) and (16) in the preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 29, 2018.

The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "– Annual Reports."

AVAILABILITY OF INFORMATION FROM 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 and will be available to the public free of charge at www.emma.msrb.org.

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

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

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FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Specialized Public Finance Inc. (the "Financial Advisor"), which firm was employed in 2019 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. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the issuer and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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 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" – Engineer, "THE DEVELOPER" – Continental Homes of Texas, L.P.; "THE SYSTEM" – Engineer; "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED" – Records of the District ("Records"), "FINANCIAL STATEMENT" – Williamson Central Appraisal District; "ESTIMATED OVERLAPPING DEBT STATEMENT" – Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "OPERATING REVENUES AND EXPENSES STATEMENT" – Audits, Records and Tax Assessor/Collector; "MANAGEMENT" – District Directors; "DEBT SERVICE REQUIREMENTS" – Financial Advisor; "THE BONDS," "LEGAL MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" and "TAX MATTERS" – McCall, Parkhurst & Horton L.L.P.

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

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

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 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, as of the date shown on the first page hereof.

/s/ Will Withers
President, Board of Directors
Leander Municipal Utility District No. 1

/s/ Dennis Hendrix
Secretary, Board of Directors
Leander Municipal Utility District No. 1

LOCATION MAP

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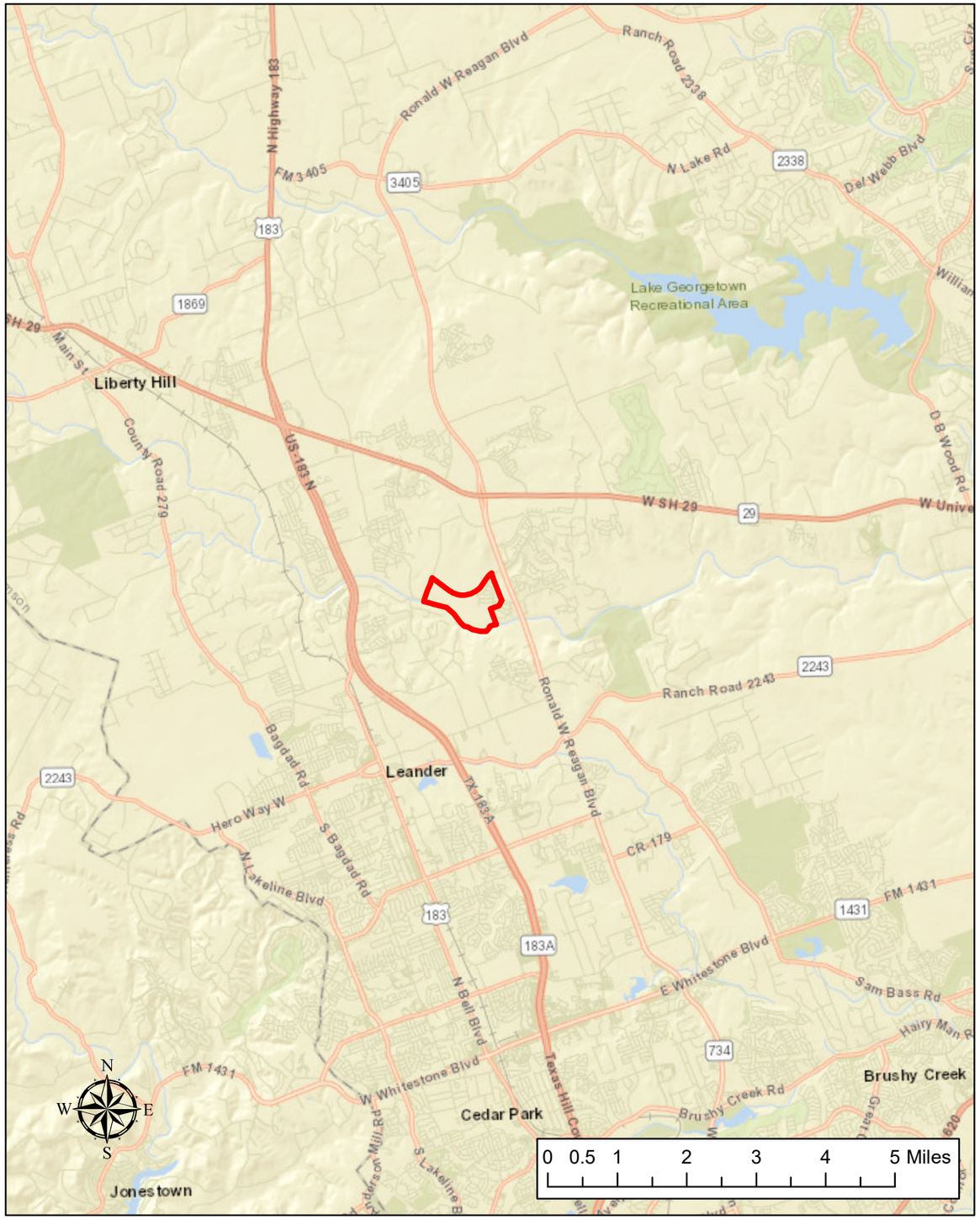
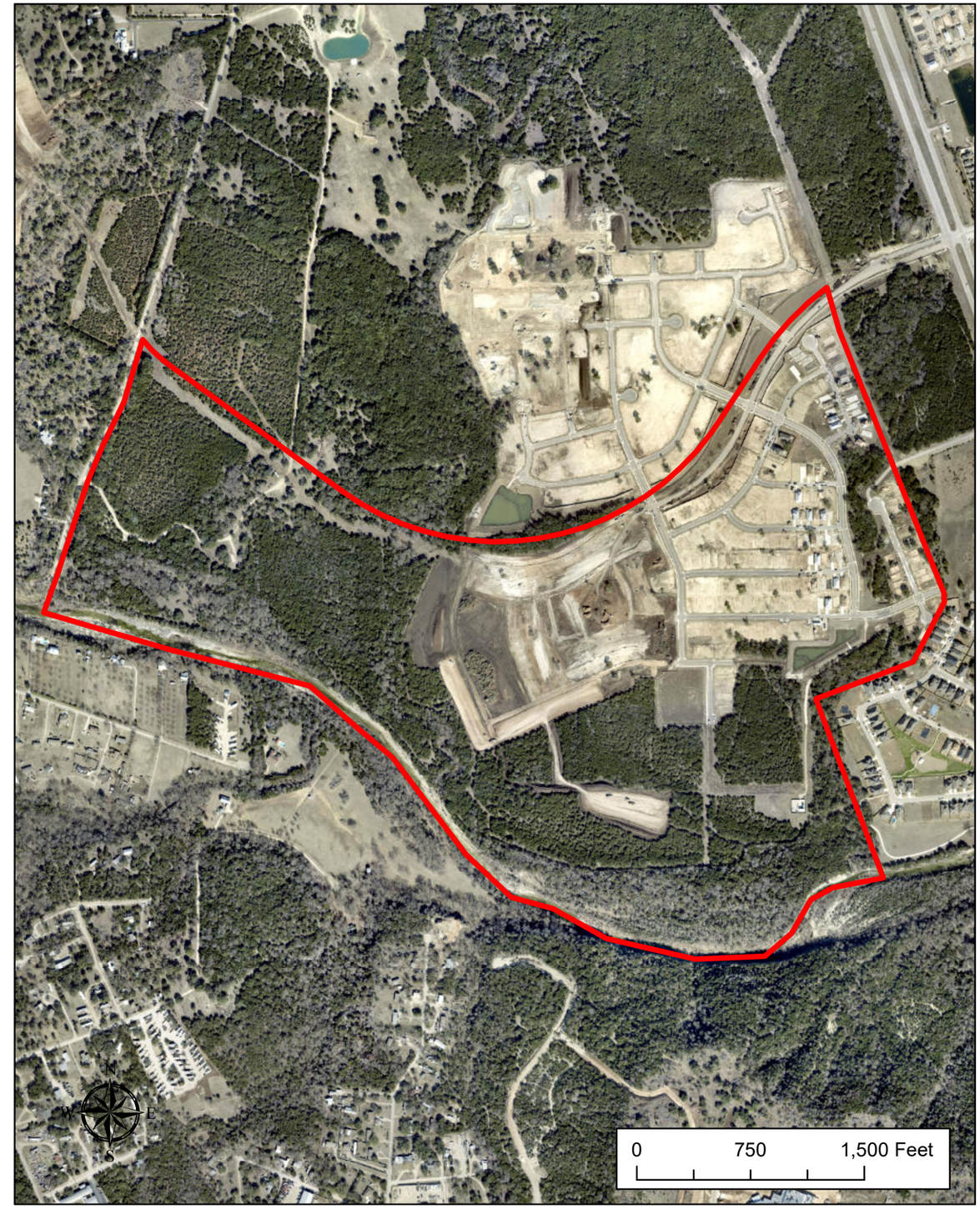


Site Location Map



Leander MUD 1 Location Map

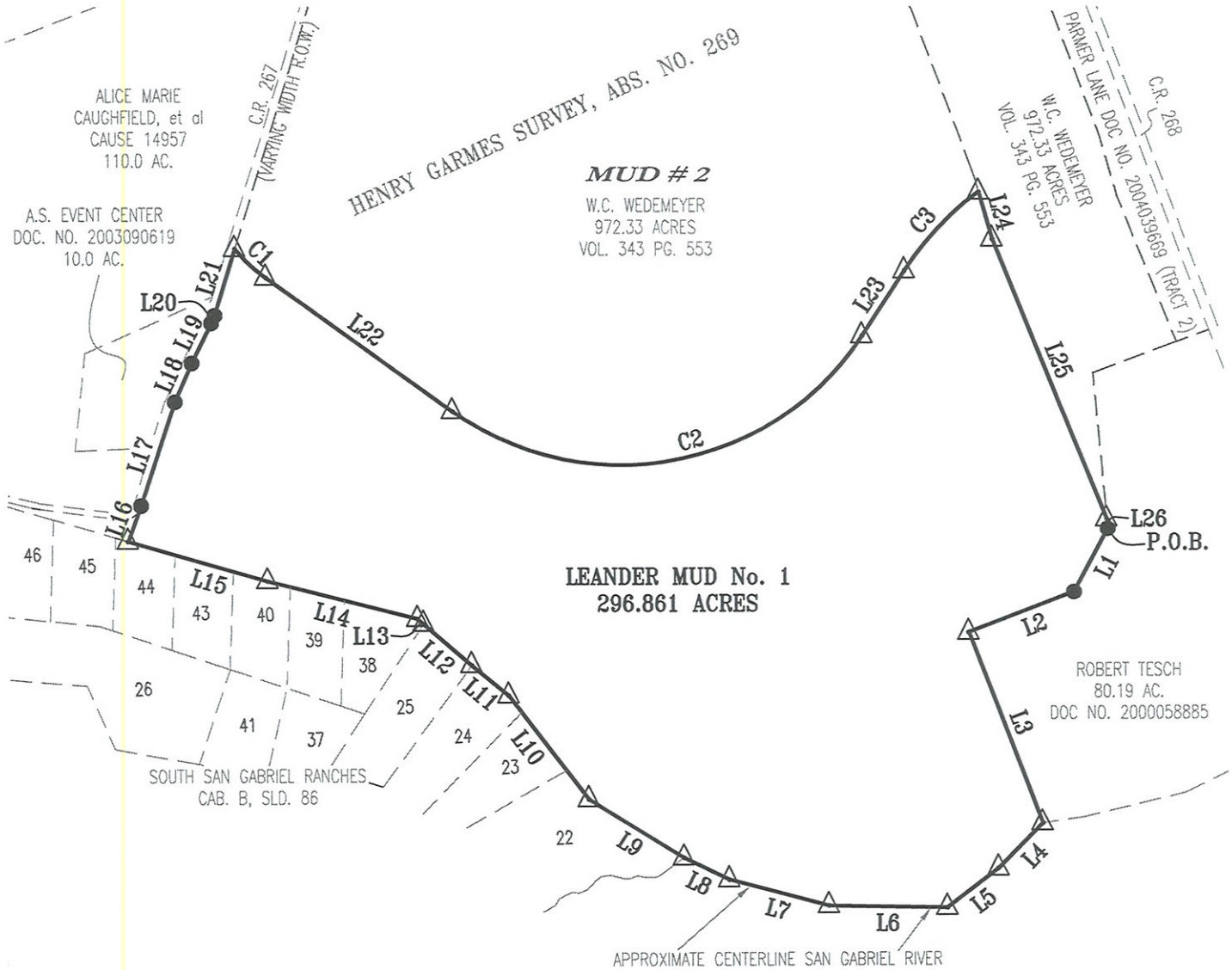
Carlson, Brigance & Doering, Inc.
Civil Engineering ❖ Surveying

SKETCH TO ACCOMPANY FIELD NOTES

SCALE: 1" = 1000'

LEGEND

- ● 1/2" CAPPED IRON ROD FOUND
- △ CALCULATED POINT
- P.O.B. POINT OF BEGINNING



STATE OF TEXAS
REGISTERED
AARON V. THOMASON
6214
PROFESSIONAL
LAND SURVEYOR

BEARING BASIS: TEXAS COORDINATE SYSTEM, CENTRAL ZONE (4203)

Carlson, Brigance & Doering, Inc.
FIRM ID #F3791 ◆ REG. # 10024900
Civil Engineering ◆ Surveying
5501 West William Cannon ◆ Austin, Texas 78749
Phone No. (512) 280-5160 ◆ Fax No. (512) 280-5165

PATH:– J:\4585\SURVEY\MUD #1 BOUNDARY

PHOTOGRAPHS

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

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BAR W
RANCH
W

IMAGE REPRESENTATIVE OF PLAN ONLY AND MAY VARY AS BUILT.

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APPENDIX A

Unaudited Financial Statement of the Developer

The Developer is a wholly-owned subsidiary of, and doing business as, D.R. Horton, Inc. ("D.R. Horton") and D.R. Horton has delivered its financial information included in this APPENDIX A (the "Financial Information") to the District for publication in connection with the District's offer and sale of the Bonds. The Financial Information has been included herein solely as additional information concerning the financial condition and capabilities of the parent company of the Developer. Such Financial Information is relevant, among other reasons, to the ability of the Developer to continue developing its property within the District and to pay ad valorem taxes thereon. However, neither D.R. Horton, the Developer or its partners, members, affiliates are responsible for, liable for and has not made any commitment for the payment of the Bonds or any other obligations to the District, and the inclusion of the Financial Information herein should not be construed as an implication to that effect. The Developer is only responsible to pay taxes to the District in respect of property it owns. See "TAX DATA – Principal Taxpayers" in the Official Statement. Neither D.R. Horton or the Developer has any legal or financial commitment to continue development of the land within the District and the Developer may sell or otherwise dispose of its property within the District at any time. In addition, the financial condition of D.R. Horton is provided as of the date stated therein and subject to change without notice except as provided below. 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.

D.R. Horton has represented to the District that the Financial Information was prepared from their books and records in accordance with generally accepted accounting principles (except where otherwise noted therein), is a fair and accurate presentation of the items presented and of the financial condition of D.R. Horton as of the dates stated therein, and does not intentionally fail to disclose any material fact necessary to make such Financial Information not materially misleading, and that there has not been any material adverse change in the financial condition of D.R. Horton since the dates at which the financial information is presented.

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D·R·HORTON®

America's Builder

ANNUAL REPORT

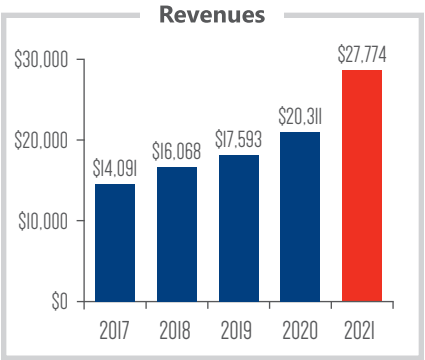
- 2021 -

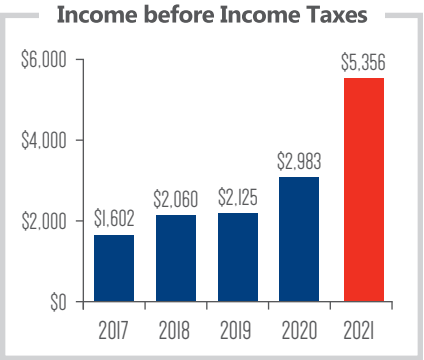
D·R·HORTON®
America's Builder

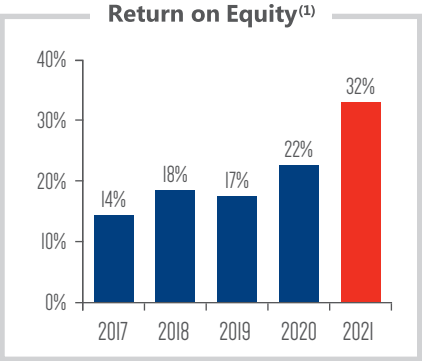
FINANCIAL SUMMARY

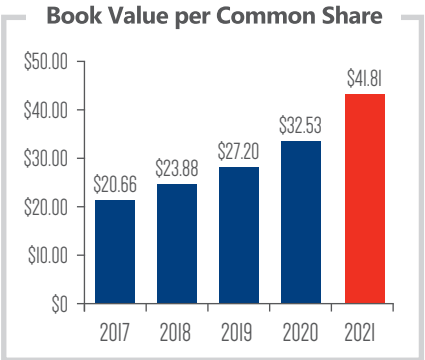
(In millions, except for number of homes, lots and per share amounts)

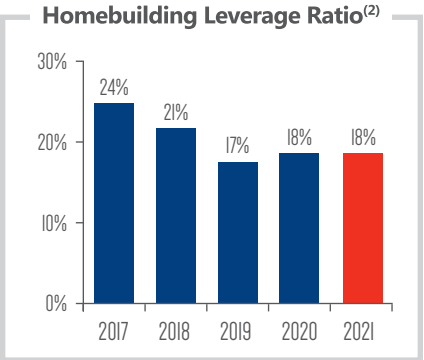
	As of and for the Year Ended September 30,				
	2021	**2020**	**2019**	**2018**	**2017**
Balance Sheet:					
Cash and cash equivalents	**$ 3,210.4**	$ 3,018.5	$ 1,494.3	$ 1,473.1	$ 1,007.8
Inventories	**16,479.1**	12,237.4	11,282.0	10,395.0	9,237.1
Total assets	**24,015.9**	18,912.3	15,606.6	14,114.6	12,184.6
Notes payable	**5,412.4**	4,283.3	3,399.4	3,203.5	2,871.6
Stockholders' equity	**14,886.5**	11,840.0	10,020.9	8,984.4	7,747.1
Book value per common share	**41.81**	32.53	27.20	23.88	20.66
Common shares outstanding	**356.0**	364.0	368.4	376.3	375.0
Income Statement and Cash Flow:					
Revenues	**$27,774.2**	$20,311.1	$17,592.9	$16,068.0	$14,091.0
Income before income taxes	**5,356.3**	2,983.0	2,125.3	2,060.0	1,602.1
Net income attributable to D.R. Horton, Inc.	**4,175.8**	2,373.7	1,618.5	1,460.3	1,038.4
Diluted earnings per common share	**11.41**	6.41	4.29	3.81	2.74
Cash provided by operations	**534.4**	1,421.6	892.1	545.2	440.2
Percentages of Revenues:					
Income before income taxes	**19.3%**	14.7%	12.1%	12.8%	11.4%
Net income attributable to D.R. Horton, Inc.	**15.0%**	11.7%	9.2%	9.1%	7.4%
Key Operating Measures:					
Return on equity[1]	**31.6%**	22.1%	17.2%	17.6%	14.4%
Homebuilding return on inventory[3]	**37.9%**	24.6%	18.1%	20.2%	16.6%
Homes closed	**81,965**	65,388	56,975	51,857	45,751
Homes in inventory	**47,800**	38,000	27,700	27,900	24,600
Homebuilding land/lots owned	**127,800**	112,600	121,400	124,300	125,000
Homebuilding lots controlled under purchase contracts	**402,500**	264,300	185,900	164,200	124,000
Percentages of Revenues:					
Gross profit - home sales	**25.5%**	21.8%	20.2%	21.3%	20.0%
SG&A expense - homebuilding	**7.3%**	8.1%	8.7%	8.6%	8.9%

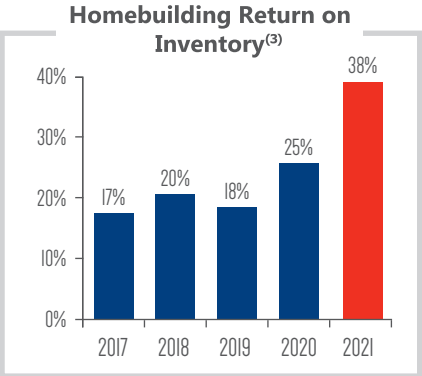












(1) Return on equity is calculated as net income attributable to D.R. Horton for the year divided by average stockholders' equity, where average stockholders' equity is the sum of ending stockholders' equity balances of the trailing five quarters divided by five.

(2) Homebuilding leverage ratio represents homebuilding notes payable divided by total capital (stockholders' equity plus homebuilding notes payable).

(3) Homebuilding return on inventory is calculated as homebuilding pre-tax income for the year divided by average inventory, where average inventory is the sum of ending homebuilding inventory balances for the trailing five quarters divided by five.

Dear Shareholders:

The D.R. Horton team delivered an outstanding performance during fiscal 2021. Our results reflect the strength of our experienced operational teams, industry-leading market share, broad geographic footprint and affordable product offerings across multiple brands. We closed 81,965 homes in fiscal 2021, completing our 20th consecutive year as the largest homebuilder in the United States. Over the last five years, we have grown our revenues by 128% and our earnings per share by 383%, while also generating $5.9 billion of homebuilding cash from operations, more than doubling our book value per share, reducing our homebuilding leverage to below 20% and significantly increasing our returns on inventory and equity to greater than 30%.

Our financial results for fiscal 2021 as compared to the prior year included the following highlights:

- Return on equity was 31.6% and homebuilding return on inventory was 37.9%;
- Increased consolidated revenues by 37% to $27.8 billion;
- Increased consolidated pre-tax income by 80% to $5.4 billion, with a pre-tax profit margin of 19.3%;
- Increased net income attributable to D.R. Horton by 76% to $4.2 billion or $11.41 per diluted share;
- Generated $1.2 billion of homebuilding cash from operations;
- Homebuilding debt to total capital was 17.8%;
- Increased stockholders' equity to $14.9 billion, up 26%;
- Increased book value per share to $41.81, up 29%; and
- Paid cash dividends of $289.3 million and repurchased 10.4 million shares of common stock for $874.0 million, which reduced our outstanding share count by 2%.

The key to our performance is a consistent, disciplined focus on the fundamentals of our business in each of our communities across the 98 markets in which we operate. Our local teams are responsible for building quality homes, ensuring our product offerings and pricing align with customer demand in each community, and serving our customers with excellence. Our operators strive to manage our business in each market to achieve an optimal balance of sales pace, pricing, profit margins and inventory levels in each community to maximize the returns on our inventory investments. We are focused on providing compelling value to our customers by offering quality homes at affordable price points across our family of brands and being the leading builder in each of our markets. We are also increasing our investments in the construction and leasing of single- and multi-family rental properties to meet strong rental demand in high growth suburban markets. Our company's culture is based on accountability, integrity and providing growth opportunities for our employees based on competence, effort and character, which provides a long-term focus and continuity to our operations. We believe our employees are the best in the industry, and their commitment, work ethic and positive team spirit are driving our success.

Housing market conditions remain very robust, and we are well-positioned for strong demand with our affordable product offerings, ample lot supply and housing inventory. However, multiple disruptions in the supply chain during the past two years have caused shortages in certain building materials and tightness in the labor market, which resulted in homebuyer demand exceeding our capacity to deliver homes across most of our markets in fiscal 2021. We slowed our homes sales pace to more closely align with our production levels and are selling homes later in the construction cycle when we have more certainty regarding the home close date for our homebuyers. Our team is successfully adapting to changing conditions, with a continued strategic focus to maximize our returns and capital efficiency in each of our communities while increasing our market share. Our strong balance sheet, liquidity and low leverage provide us with significant financial flexibility. We plan to maintain our disciplined approach to investing capital to enhance the long-term value of our company, including returning capital to our shareholders through both dividends and share repurchases on a consistent basis. We thank all of our suppliers, subcontractors, land developers, real estate agents and lenders for their valuable relationships. Finally, we appreciate our shareholders for your consistent support, as we strive to validate your trust by delivering sustainable value, addressing future challenges directly and maintaining our position as the leader in the homebuilding industry.

D.R. Horton

Donald R. Horton
Chairman of the Board

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended September 30, 2021

or

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

For the Transition Period From _____ To _____

Commission file number 1-14122

D·R·HORTON®

America's Builder

D.R. Horton, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**75-2386963**
(State or other jurisdiction of incorporation or organization)	(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	DHI	New York Stock Exchange
5.750% Senior Notes due 2023	DHI 23A	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of March 31, 2021, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $32.0 billion based on the closing price as reported on the New York Stock Exchange.

As of November 11, 2021, there were 356,529,507 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2022 Annual Meeting of Stockholders are incorporated herein by reference (to the extent indicated) in Part III.

D.R. HORTON, INC. AND SUBSIDIARIES
2021 ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. 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 98 markets across 31 states, primarily under the names of D.R. Horton, *America's Builder*, Emerald Homes, Express Homes and Freedom Homes. Our common stock is included in the S&P 500 Index and listed on the New York Stock Exchange (NYSE) under the ticker symbol "DHI." 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 homebuilding business began in 1978 in Fort Worth, Texas, and our common stock has been publicly traded since 1992. We have expanded and diversified our homebuilding operations geographically over the years by investing available capital into our existing markets, start-up operations in new markets and acquisitions of other homebuilding companies. Our product offerings across our operating markets are broad and diverse. Our homes range in size from 1,000 to more than 4,000 square feet and in price from $150,000 to more than $1,000,000. For the year ended September 30, 2021, we closed 81,965 homes with an average closing price of $323,300.

Our business operations consist of homebuilding, a majority-owned residential lot development company, financial services, rental and other activities. Our homebuilding operations are our core business, generating 96% of our consolidated revenues of $27.8 billion in fiscal 2021 and 97% of consolidated revenues of $20.3 billion and $17.6 billion in fiscal 2020 and 2019, respectively. Our homebuilding operations generate most of their revenues from the sale of completed homes and to a lesser extent from the sale of land and lots. Approximately 90% of our home sales revenue in fiscal 2021 was generated from the sale of single-family detached homes, with the remainder from the sale of attached homes, such as townhomes, duplexes and triplexes.

Our position as the most geographically diverse and largest volume homebuilder in the United States provides a strong platform for us to compete for new home sales. Our product offerings include a broad range of homes for entry-level, move-up, active adult and luxury buyers. Our entry-level homes at affordable price points have experienced very strong demand from homebuyers, as the entry-level segment of the new home market remains under-served, with low inventory levels relative to demand.

During fiscal 2018, we acquired 75% of the outstanding shares of Forestar Group Inc. (Forestar), a publicly traded residential lot development company listed on the NYSE under the ticker symbol "FOR." Forestar is a component of our homebuilding strategy to enhance operational and capital efficiency and returns by expanding relationships with land developers and increasing the portion of our land and lot position controlled through land purchase contracts. At September 30, 2021, we owned 63% of Forestar's outstanding common stock.

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 sells substantially all of 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 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.

Our rental segment consists of multi-family and single-family rental operations. The multi-family rental operations develop, construct, lease, own and ultimately sell the residential properties. The single-family rental operations construct single-family rental homes with the intent to later market the community for a bulk sale of homes.

In addition to our homebuilding, Forestar, financial services and rental operations, we engage in other business activities through our subsidiaries. We conduct insurance-related operations, own non-residential real estate including ranch land and improvements and own and operate energy related assets. The results of these operations are immaterial for separate reporting and therefore are grouped together and presented as other.

Available Information

We make available, as soon as reasonably practicable, on our website, *www.drhorton.com*, all of our reports required to be filed with the Securities and Exchange Commission (SEC). These reports can be found on the "Investor Relations" section of our website under "Financial Information" and include our annual and quarterly reports on Form 10-K and 10-Q, current reports on Form 8-K, beneficial ownership reports on Forms 3, 4, and 5, proxy statements and amendments to such reports. Our SEC filings are also available to the public on the SEC's website at www.sec.gov. In addition to our SEC filings, our corporate governance documents, including our Code of Ethical Conduct for the Chief Executive Officer, Chief Financial Officer and senior financial officers, are available on the "Investor Relations" section of our website under "ESG." Our stockholders may also obtain these documents in paper format free of charge upon request made to our Investor Relations department.

Our principal executive offices are located at 1341 Horton Circle, Arlington, Texas 76011, and our telephone number is (817) 390-8200. Information on or linked to our website is not incorporated by reference into this annual report on Form 10-K unless expressly noted.

OPERATING STRUCTURE AND PROCESSES

Following is an overview of our company's operating structure and the significant processes that support our business controls, strategies and performance.

Homebuilding Markets

Our homebuilding business operates in 98 markets across 31 states, which provides us with geographic diversification in our homebuilding inventory investments and our sources of revenues and earnings. We believe our geographic diversification lowers our operational risks by mitigating the effects of local and regional economic cycles, and it also enhances our earnings potential by providing more diverse opportunities to invest in our business.

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. During the fourth quarter of fiscal 2021, we reassessed our operating segments and reportable segments and realigned the aggregation of our homebuilding operating segments into six new reportable segments to better allocate our homebuilding operating segments across geographic reporting regions. Our financial statements and the notes thereto contain additional information regarding segment performance.

State	Reporting Region/Market
	Northwest Region
Colorado	Colorado Springs
	Denver
	Fort Collins
Oregon	Bend
	Portland/Salem
Utah	Salt Lake City
	St. George
Washington	Seattle/Tacoma/Everett/Olympia
	Spokane
	Vancouver
	Southwest Region
Arizona	Phoenix
	Tucson
California	Bakersfield
	Bay Area
	Fresno
	Los Angeles County
	Modesto/Merced/Stockton
	Riverside County
	Sacramento
	San Bernardino County
	San Diego County
Hawaii	Oahu
Nevada	Las Vegas
	Reno
New Mexico	Albuquerque
	Southeast Region
Alabama	Birmingham
	Huntsville
	Mobile/Baldwin County
	Montgomery
	Tuscaloosa
Florida	Fort Myers/Naples
	Gainesville
	Jacksonville
	Lakeland
	Melbourne/Vero Beach
	Miami/Fort Lauderdale
	Ocala
	Orlando
	Pensacola/Panama City
	Port St. Lucie
	Tallahassee
	Tampa/Sarasota
	Volusia County
	West Palm Beach
Louisiana	Baton Rouge
	Lake Charles/Lafayette
Mississippi	Gulf Coast

State	Reporting Region/Market
	South Central Region
Oklahoma	Oklahoma City
	Tulsa
Texas	Austin
	Beaumont
	Bryan/College Station
	Corpus Christi
	Dallas
	Fort Worth
	Houston
	Killeen/Temple/Waco
	Midland/Odessa
	New Braunfels/San Marcos
	San Antonio
	East Region
Georgia	Atlanta
	Augusta
	Savannah
North Carolina	Asheville
	Charlotte
	Greensboro/Winston-Salem
	Raleigh/Durham
	Wilmington
South Carolina	Charleston
	Columbia
	Greenville/Spartanburg
	Hilton Head
	Myrtle Beach
Tennessee	Chattanooga
	Knoxville
	Memphis
	Nashville
	North Region
Delaware	Central Delaware
	Northern Delaware
Illinois	Chicago
Indiana	Fort Wayne
	Indianapolis
	Northwest Indiana
Iowa	Des Moines
Kentucky	Louisville
Maryland	Baltimore
	Suburban Washington, D.C.
	Western Maryland
Minnesota	Minneapolis/St. Paul
Nebraska	Omaha
New Jersey	Northern New Jersey
	Southern New Jersey
Ohio	Cincinnati
	Columbus
Pennsylvania	Central Pennsylvania
	Philadelphia
Virginia	Northern Virginia
	Southern Virginia

When evaluating new or existing homebuilding markets for purposes of capital allocation, we consider local, market-specific factors, including among others:

- Economic conditions;
- Employment levels and job growth;
- Income level of potential homebuyers;
- Local housing affordability and typical mortgage products utilized;
- Market for homes at our targeted price points;
- Availability of land and lots in desirable locations on acceptable terms;
- Land entitlement and development processes;
- Availability of qualified subcontractors;
- New and secondary home sales activity;
- Competition;
- Prevailing housing products, features, cost and pricing; and
- Performance capabilities of our local management team.

Economies of Scale

We are the largest homebuilding company in the United States in fiscal 2021 as measured by number of homes closed, and we are also one of the largest builders in most of the markets in which we operate. We believe that our national, regional and local scale of operations provides us with benefits that may not be available to the same degree to some other smaller homebuilders, such as:

- Greater access to and lower cost of capital, due to our balance sheet strength and our lending and capital markets relationships;
- Volume discounts and rebates from national, regional and local materials suppliers and lower labor rates from certain subcontractors; and
- Enhanced leverage of our general and administrative activities, which allows us flexibility to adjust to changes in market conditions and compete effectively across our markets.

Decentralized Homebuilding Operations

We view homebuilding as a local business; therefore, most of our direct homebuilding activities are decentralized to provide flexibility to our local managers in making operational decisions. We believe that our local management teams, who are familiar with local market conditions, have the best information to make many decisions regarding their operations. At September 30, 2021, we had 56 separate homebuilding operating divisions, many of which operate in more than one market area. Generally, each operating division consists of a division president; a controller and accounting personnel; land entitlement, acquisition and development personnel; a sales manager and sales and marketing personnel; a construction manager and construction superintendents; customer service personnel; a purchasing manager and office staff. Our division presidents receive performance-based compensation if they achieve targeted financial and operating metrics related to their operating divisions. Following is a summary of our homebuilding activities that are decentralized in our local operating divisions, and the control and oversight functions that are centralized in our regional and corporate offices.

Operating Division Responsibilities

Each operating division is responsible for:

- Site selection, which involves

  — A feasibility study;

  — Soil and environmental reviews;

  — Review of existing zoning and other governmental requirements;

  — Review of the need for and extent of offsite work required to obtain project entitlements; and

  — Financial analysis of the potential project;

- Negotiating lot purchase, land acquisition and related contracts;
- Obtaining all necessary land development and home construction approvals;
- Selecting land development subcontractors and ensuring their work meets our contracted scopes;
- Selecting building and architectural plans;
- Selecting home construction subcontractors and ensuring their work meets our contracted scopes;
- Planning and managing home construction schedules;
- Determining the pricing for each house plan and options in a given community;
- Developing and implementing local marketing and sales plans;
- Coordinating all interactions with customers and real estate brokers during the sales, construction and home closing processes; and
- Ensuring the quality and timeliness of post-closing service and warranty repairs provided to customers.

Centralized Controls

We centralize many important risk elements of our homebuilding business through our regional and corporate offices. We have separate homebuilding regional offices, which generally consist of a region president, a chief financial officer, legal counsel and other operational and office support staff. Each of our region presidents and their management teams are responsible for oversight of the operations of a number of homebuilding operating divisions, including:

- Review and approval of division business plans and budgets;
- Review and approval of all land and lot acquisition contracts;
- Review of all business and financial analysis for potential land and lot inventory investments;
- Oversight of land and home inventory levels;
- Monitoring division financial and operating performance; and
- Review of major personnel decisions and division incentive compensation plans.

Our corporate executives and corporate office departments are responsible for establishing our operational policies and internal control standards and for monitoring compliance with established policies and controls throughout our operations. The corporate office also has primary responsibility for direct management of certain key risk elements and initiatives through the following centralized functions:

- Financing;
- Cash management;
- Allocation of capital;
- Issuance and monitoring of inventory investment guidelines;
- Approval and funding of land and lot acquisitions;
- Monitoring and analysis of profitability, returns, costs and inventory levels;
- Risk and litigation management;
- Environmental assessments of land and lot acquisitions;
- Technology systems to support management of operations, marketing and financial information;
- Accounting and management reporting;
- Income taxes;
- Internal audit;
- Public reporting and investor and media relations;
- Administration of payroll and employee benefits;
- Negotiation of national purchasing contracts;
- Administration, reporting and monitoring of customer satisfaction surveys and resolutions of issues; and
- Approval of major personnel decisions and management incentive compensation plans.

Land/Lot Acquisition and Inventory Management

We acquire land for use in our operations after we have completed due diligence and generally after we have obtained the rights (known as entitlements) to begin development or construction work resulting in an acceptable number of residential lots. Before we acquire lots or tracts of land, we complete a feasibility study, which includes soil tests, independent environmental studies, other engineering work and financial analysis. We also evaluate the status of necessary zoning and other governmental entitlements required to develop and use the property for home construction. Although we purchase and develop land primarily to support our homebuilding activities, we may sell land and lots to other developers and homebuilders where we have excess land and lot positions or for other strategic reasons.

We also enter into land/lot contracts, in which we obtain the right, but generally not the obligation, to buy land or lots at predetermined prices on a defined schedule commensurate with anticipated home closings or planned development. These contracts generally are non-recourse, which limits our financial exposure to our earnest money deposited into escrow under the terms of the contract and any pre-acquisition due diligence costs we incur. This enables us to control land and lot positions with limited capital investment, which substantially reduces the risks associated with land ownership.

We directly acquire almost all of our land and lot positions. We are a party to a small number of joint ventures. Joint ventures are consolidated if we have a controlling interest, or accounted for under the equity method of accounting if we have a significant influence, but not control.

We attempt to mitigate our exposure to real estate inventory risks by:

- Controlling our level of inventory investment and managing our supply of land/lots owned and controlled through purchase contracts to match the expected housing demand in each of our operating markets;
- Monitoring local market and demographic trends, housing preferences and related economic developments, including the identification of desirable housing submarkets based on the quality of local schools, new job opportunities, local growth initiatives and personal income trends;
- Utilizing land/lot purchase contracts and seeking to acquire developed lots which are substantially ready for home construction, where possible; and
- Monitoring and managing the number of speculative homes (homes under construction without an executed sales contract) built in each subdivision.

Land Development and Home Construction

Substantially all of our land development and home construction work is performed by subcontractors. Subcontractors typically are selected after a competitive bidding process and are retained for a specific subdivision or series of house plans pursuant to a contract that obligates the subcontractor to complete the scope of work at an agreed-upon price. We employ land development managers and construction superintendents to monitor land development and home construction activities, participate in major design and building decisions, coordinate the activities of subcontractors and suppliers, review the work of subcontractors for quality and cost controls and monitor compliance with zoning and building codes. In addition, our construction superintendents interact with our homebuyers during the construction process and instruct buyers on post-closing home maintenance.

Our home designs are selected or prepared in each of our markets to appeal to local homebuyers' expectations for affordability, home size and features, and our local management teams adjust product offerings to meet buyer demand as necessary. In many communities, we offer optional interior and exterior features to homebuyers for an additional charge. Construction time for our homes depends on the availability of labor, materials and supplies, the weather, the size of the home and other factors. We completed the construction of most homes within two to seven months in fiscal 2021, which is longer than prior years, as construction times have been impacted by the labor and materials shortages discussed below.

We typically do not maintain significant inventories of land development or construction materials, except for work in progress materials for active development projects and homes under construction. Generally, the construction materials used in our operations have been readily available from numerous sources, and we have contracts exceeding one year with certain suppliers of building materials that are cancelable at our option. In fiscal 2021, the effects of the COVID-19 pandemic and labor shortages on manufacturing production, combined with the improvement in economic conditions and the strong demand for new homes, caused multiple disruptions in our supply chain and have resulted in shortages in certain building materials and tightness in the construction labor market, which has caused our construction cycle to lengthen.

We are subject to governmental regulations that affect our land development and construction operations. At times, we have experienced delays in receiving the proper approvals from municipalities or other government agencies that have delayed our anticipated development and construction activities in certain communities.

Cost Controls

We control construction costs by designing our homes efficiently and by obtaining competitive bids for construction materials and labor. We also competitively bid and negotiate pricing from our subcontractors and suppliers based on the volume of services and products we purchase on a local, regional and national basis. We monitor our land development expenditures and construction costs versus budgets for each house and community, and we review our inventory levels, margins, expenses, profitability and returns for each operating market compared to both its business plan and our performance expectations.

We control overhead costs by centralizing certain accounting and administrative functions, monitoring staffing and compensation levels and by applying technology to business processes to improve productivity where practical. We review other general and administrative costs to identify efficiencies and savings opportunities in our operating divisions and our regional and corporate offices. We also direct many of our promotional activities toward local real estate brokers and digital marketing initiatives, which we believe are efficient uses of our marketing expenditures.

Marketing and Sales

We primarily use the D.R. Horton, Emerald Homes, Express Homes and Freedom Homes brand names to market and sell our homes. Our D.R. Horton branded communities are the core of our business and account for the majority of our home closings, focusing primarily on the first time and first time move-up homebuyer. Our Emerald branded communities appeal to buyers in search of higher-end move-up and luxury homes. Our Express branded communities primarily accommodate a segment of entry-level buyers who are focused on affordability. Our Freedom Homes brand offers homes at affordable price points to active adult buyers seeking a low-maintenance lifestyle. The percentage of home closings and home sales revenue contributed by each brand during fiscal 2021 was as follows:

	Percentage of Home Closings	Percentage of Home Sales Revenue
D.R. Horton	65 %	68 %
Emerald	1 %	2 %
Express	31 %	27 %
Freedom	3 %	3 %
Total	100 %	100 %

We also use names of acquired companies for a period of time after the acquisition. We currently utilize the Pacific Ridge Homes brand in our Seattle, Washington market and the Terramor Homes brand in our Raleigh, North Carolina market. The product offerings in all of these markets are similar to, and included with, our D.R. Horton branded communities shown above.

We market and sell our homes primarily through commissioned employees, and the majority of our home closings also involve an independent real estate broker. We typically conduct home sales from sales offices located in furnished model homes in each subdivision, and we generally do not offer our model homes for sale until the completion of a subdivision. Our sales personnel assist prospective homebuyers by providing floor plans and price information, demonstrating the features and layouts of our homes and assisting with the selection of options, when available. We train and inform our sales personnel regarding construction schedules and marketing and advertising plans. As market conditions warrant, we may provide potential homebuyers with incentives, such as discounts or included upgrades, to be competitive in a particular market or to attain our targeted sales pace.

We market our homes and communities to prospective homebuyers and real estate brokers digitally, through email, search engine marketing, social media and our company website and other real estate websites, in addition to print media and advertisement. We also use billboards, radio, television, magazine and newspaper advertising locally as necessary. We attempt to position our subdivisions in locations that are desirable to potential homebuyers and convenient to or visible from local traffic patterns, which helps to reduce advertising costs. Model homes play an important role in our marketing efforts, and we expend significant effort and resources to create an attractive atmosphere in our model homes.

We also build speculative homes in most of our communities, which allow us to compete effectively with existing homes available in the market and improve our profits and returns. These homes enhance our marketing and sales efforts to prospective homebuyers who are renters or who are relocating to these markets and require a home within a short time frame, as well as to independent brokers who represent these homebuyers. We determine our speculative homes strategy in each market based on local market factors, such as new job growth, the number of job relocations, housing demand and supply, seasonality, current sales contract cancellation trends and our past experience in the market. We attempt to maintain a level of speculative home inventory in each community based on our current and planned sales pace, and we monitor and adjust speculative home inventory on an ongoing basis as conditions warrant.

Sales Contracts and Backlog

Our sales contracts require an earnest money deposit which varies in amount across our markets and communities. Additionally, customers are generally required to pay additional deposits when they select options or upgrade features for their homes. Our sales contracts include a financing contingency which permits customers to cancel and receive a refund of their deposit if they cannot obtain mortgage financing at prevailing or specified interest rates within a defined period. Our contracts may include other contingencies, such as the sale of an existing home. We either retain or refund customer deposits on cancelled sales contracts, depending upon the applicable provisions of the contract or other circumstances.

Sales order backlog represents homes under contract but not yet closed at the end of the period. At September 30, 2021, the value of our backlog of sales orders was $9.5 billion (26,221 homes), an increase of 16% from $8.2 billion (26,683 homes) at September 30, 2020. The average sales price of homes in backlog was $360,900 at September 30, 2021, up from the $306,800 average at September 30, 2020. Many of the contracts in our sales order backlog are subject to contingencies, such as those described above, which can result in cancellations. As a percentage of gross sales orders, cancellations of sales contracts were 17% in fiscal 2021 compared to 20% in fiscal 2020.

The length of time between the signing of a sales contract for a home and delivery of the home to the buyer (closing) is generally from one to seven months; therefore, substantially all of the homes in our sales backlog at September 30, 2021 are scheduled to close in fiscal 2022.

Customer Service and Quality Control

Our operating divisions are responsible for pre-closing quality control inspections and responding to customers' post-closing needs. We believe that a prompt and courteous response to homebuyers' needs during and after construction reduces post-closing repair costs, enhances our reputation for quality and service and ultimately leads to repeat and referral business from the real estate community and homebuyers. We typically provide our 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 subcontractors who perform the actual construction also provide us with warranties on workmanship and are expected to respond to us and the homeowner in a timely manner. In addition, some of our suppliers provide manufacturer's warranties on specified products installed in the home.

Rental Properties

Our multi-family rental operations develop, construct, lease, own and ultimately sell multi-family residential properties that produce rental income. We primarily focus on constructing garden style multi-family rental communities, which typically accommodate 200 to 400 dwelling units, in high growth suburban markets. We sold three multi-family rental properties in fiscal 2021 and two multi-family rental properties in fiscal 2020.

During fiscal 2020, we began constructing and leasing single-family homes as income-producing rental communities. Our single-family rental operations construct single-family rental homes with the intent to later market the community for a bulk sale of homes. We completed three bulk sales of single-family rental properties in fiscal 2021 and no bulk sales of these properties in fiscal 2020.

Forestar Residential Lot Development Operations

During fiscal 2018, we acquired 75% of the outstanding shares of Forestar. Forestar is a residential lot development company with operations in 56 markets across 23 states as of September 30, 2021. We owned approximately 63% of Forestar's outstanding common stock at September 30, 2021. Forestar is a component of our homebuilding strategy to enhance operational efficiency and returns by expanding relationships with land developers and increasing the portion of our land and lot position controlled through land purchase contracts. Forestar's strategy is focused on making investments in land acquisition and development to expand its residential lot development business across a geographically diversified national platform and consolidating market share in the fragmented U.S. lot development industry. Our homebuilding operations acquire finished lots from Forestar in accordance with the master supply agreement between the two companies. A shared services agreement is in place whereby we provide Forestar certain administrative, compliance, operational and procurement services. As the controlling shareholder, we have significant influence in guiding the strategic direction and operations of Forestar.

Customer Mortgage Financing

We provide mortgage financing services principally to purchasers of our homes in the majority of our homebuilding markets through DHI Mortgage, our 100% owned subsidiary. DHI Mortgage assists in the sales transaction by coordinating the mortgage application, mortgage commitment and home closing processes to facilitate a timely and efficient home-buying experience for our buyers. During the year ended September 30, 2021, DHI Mortgage provided mortgage financing services for approximately 67% of our total homes closed, and approximately 98% of DHI Mortgage's loan volume related to homes closed by our homebuilding operations. Most of our homebuilding divisions also work with additional mortgage lenders that offer a range of mortgage financing programs to our homebuyers.

To limit the risks associated with our mortgage operations, DHI Mortgage originates loan products that we believe can be sold to third-party purchasers of mortgage loans, the majority of which are 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). DHI Mortgage sells substantially all of the loans and the related servicing rights to third-party purchasers after origination with limited recourse provisions. DHI Mortgage centralizes most of its control and oversight functions, including those related to loan underwriting, quality control, regulatory compliance, secondary marketing of loans, hedging activities, accounting and financial reporting.

Title Services

Through our subsidiary title companies, we serve as a title insurance agent in selected markets by providing title insurance policies, examination and closing services primarily to our homebuilding customers.

Human Capital Resources

People and Culture

For the past two fiscal years, despite the COVID-19 pandemic, we increased the number of employees in all of our operating segments and made no reductions to our employee compensation plans or employee benefit plans. As of September 30, 2021, we employed 11,788 people, of whom 7,947 work in our homebuilding operations, 2,891 in our financial services segment, 482 at our corporate office, 250 for our Forestar subsidiary, 175 in our rental operations and 43 in our other businesses. Of our homebuilding employees, 3,369 are involved in construction, 2,018 are sales and marketing personnel and 2,560 are office personnel.

We believe the people who work for our company are our most important resources and are critical to our continued success. We focus significant attention toward attracting and retaining talented and experienced individuals to manage and support our operations. Our people are expected to exhibit and promote honest, ethical and respectful conduct in the workplace. All of our employees must adhere to a code of conduct that sets standards for appropriate behavior and includes required internal training on preventing, identifying, reporting and stopping any type of discrimination.

Recruitment, Development and Retention

We are committed to hiring, developing and supporting a diverse workforce and maintaining an inclusive workplace. We believe diversity in the workplace produces unique perspectives and fresh ideas and helps us better serve our customers. Our management team also supports a culture of developing future leaders from our existing workforce, enabling us to promote from within for many leadership positions. We believe this provides long-term focus and continuity to our operations while also providing opportunities for the growth and advancement of our employees. Additionally, the long-term retention of our employees provides us with an experienced, cohesive workforce, which has been vital to achieving our goals. Our focus on retention is evident in the length of service of our executive, regional and divisional management teams. The average tenure of our executive team and homebuilding region presidents is 28 years, our homebuilding division presidents is 15 years and our city managers is greater than 10 years.

Compensation and Benefits

We believe our compensation package and benefits are competitive with others in our industry. In addition to base pay, eligible employees may participate in our short-term incentive bonus program and/or our stock compensation plan. We also offer our employees a broad range of benefits, including medical, dental and vision healthcare insurance and paid parental leave. Additional information about our compensation and employee benefit plans, such as our 401(k) savings plan, employee stock purchase plan and our stock compensation plans, is included in Note K to the accompanying financial statements.

Workplace Safety and Wellness

The safety and well-being of our employees is our first priority. We take workplace safety seriously at our construction sites and in our offices. We provide third-party training for our field personnel to become certified by the Occupational Safety and Health Administration (OSHA), and we communicate with all of our employees through a monthly safety newsletter to inform and reinforce our commitment to and concern for their well being.

We implemented safety protocols to protect our employees and our homebuyers during the COVID-19 pandemic. These protocols include complying with health and safety standards as required by federal, state and local government agencies, taking into consideration guidelines of the Centers for Disease Control and Prevention and other public health authorities. Many of our administrative and operational functions during this time required modification, including some of our workforce working remotely. Our experienced teams of people adapted to the changes in our work environment and have managed our business successfully during this challenging time.

Business Acquisitions

We routinely evaluate opportunities to profitably expand our operations, including potential acquisitions of other homebuilding or related businesses. Acquisitions of homebuilding and related businesses usually provide us with immediate land and home inventories and control of additional land and lot positions through purchase contracts. Also, employees of acquired businesses generally have specialized knowledge of local market conditions, including existing relationships with municipalities, land owners, developers, subcontractors and suppliers. These inventory positions and local market knowledge and relationships could take us several years to develop through our own efforts. We seek to limit the risks associated with acquiring other companies by conducting extensive operational, financial and legal due diligence on each acquisition and by performing financial analysis to determine that each acquisition is expected to have a positive impact on our earnings within an acceptable period of time.

Competition

The homebuilding, lot development and rental housing industries are highly competitive. We compete not only for homebuyers and renters, but also for desirable properties, raw materials, skilled labor and financing. We compete with local, regional and national companies in these industries and also with existing home sales, foreclosures and rental properties. We compete on the basis of price, location, quality and design of our homes and on mortgage financing terms.

The competitors to our financial services businesses include other mortgage lenders and title companies, including national, regional and local mortgage banks and other financial institutions. Some of these competitors are subject to fewer governmental regulations and have greater access to capital than we do, may operate with different lending criteria and/or may offer a broader or more attractive array of financing and other products and services to potential customers. We strive to provide flexible, fairly priced financing alternatives subject to applicable regulations.

Our businesses compete with other companies across all industries to attract and retain highly skilled and experienced employees, managers and executives. Competition for the services of these individuals increases as business conditions improve in the homebuilding, lot development, financial services and rental housing industries and in the general economy.

Governmental Regulations and Environmental Matters

The homebuilding, lot development and rental housing industries are subject to extensive and complex regulations. We and the subcontractors we use must comply with many federal, state and local laws and regulations. These include zoning, density and development requirements and building, environmental, advertising, labor and real estate sales rules and regulations. These regulations and requirements affect substantially all aspects of our land development and home design, construction and sales processes in varying degrees across our markets. Our homes are inspected by local authorities where required, and homes eligible for insurance or guarantees provided by the Federal Housing Administration (FHA) and the U.S. Department of Veteran Affairs (VA) are subject to inspection by them. These regulations often provide broad discretion to the administering governmental authorities. In addition, our new housing developments may be subject to various assessments for schools, parks, streets, utilities and other public improvements.

Our construction and land development activities are also subject to an extensive array of local, state and federal statutes, ordinances, rules and regulations concerning protection of health, safety and the environment. The particular compliance requirements for each site vary greatly according to location, environmental condition and the present and former uses of the site and adjoining properties. We believe that we are in compliance in all material respects with existing environmental regulations applicable to our business. Additionally, our compliance with such regulations has not had, nor is expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, changes in regulations could increase our costs to comply with such regulations, as discussed in "Item 1A. Risk Factors."

Our mortgage company must comply with extensive state and federal laws and regulations, which are administered by numerous agencies, including the Consumer Financial Protection Bureau, Federal Housing Finance Agency, U.S. Department of Housing and Urban Development, FHA, VA, United States Department of Agriculture (USDA), Fannie Mae, Freddie Mac and Ginnie Mae. These laws and regulations include many compliance requirements, including licensing, consumer disclosures, fair lending and real estate settlement procedures. As a result, our operations are subject to regular, extensive examinations by the applicable agencies.

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 pre-tax income in the third and fourth quarters of our fiscal year. The seasonal nature of our business can also cause significant variations in the working capital requirements for our homebuilding, lot development, financial services and rental 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.

ITEM 1A. RISK FACTORS

Discussion of our business and operations included in this annual report on Form 10-K should be read together with the risk factors set forth below. They describe various risks and uncertainties we are or may become subject to, many of which are difficult to predict or beyond our control. These risks and uncertainties, together with other factors described elsewhere in this report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

Risks Related to our Business and our Industry

The homebuilding, lot development and rental housing industries are cyclical and affected by changes in economic, real estate or other conditions that could adversely affect our business or financial results.

The homebuilding, lot development and rental housing industries are cyclical and are significantly affected by changes in general and local economic and real estate conditions, such as:

- employment levels;
- consumer confidence and spending;
- housing demand;
- availability of financing for homebuyers;
- availability of financing for companies that purchase our rental properties;
- interest rates;
- availability and prices of new homes and existing homes for sale and availability and market values of rental properties; and
- demographic trends.

Adverse changes in these general and local economic conditions or deterioration in the broader economy would cause a negative impact on our business and financial results and increase the risk for asset impairments and writeoffs. Changes in these economic conditions may affect some of our regions or markets more than others. If adverse conditions affect our larger markets, they could have a proportionately greater impact on us than on some other companies.

In the past, the federal government's fiscal and trade policies and economic stimulus actions have created uncertainty in the financial markets and caused volatility in interest rates, which impacted business and consumer behavior. Monetary policy actions affecting interest rates or fiscal policy actions and new legislation related to taxation, spending levels or borrowing limits, along with the related political debates, conflicts and compromises associated with such actions, may negatively impact the financial markets and consumer confidence. Such events could hurt the U.S. economy and the housing and rental markets and in turn, could adversely affect the operating results of our businesses.

Deployments of U.S. military personnel to foreign regions, terrorist attacks, other acts of violence or threats to national security and any corresponding response by the United States or others, domestic or international instability or social or political unrest may cause an economic slowdown in the markets where we operate, which could adversely affect our business.

If we experience any of the foregoing, potential customers may be less willing or able to buy our homes or our rental properties. In the future, our pricing and product strategies may also be limited by market conditions. We may be unable to change the mix of our home or rental offerings, reduce the costs of the homes or properties we build, offer more affordable homes or rental properties or satisfactorily address changing market conditions in other ways without adversely affecting our profits and returns. In addition, cancellations of home sales contracts in backlog may increase if homebuyers do not honor their contracts due to any of the factors discussed above.

Our financial services business is closely related to our homebuilding business, as it originates mortgage loans principally to purchasers of the homes we build. A decrease in the demand for our homes because of the foregoing matters will also adversely affect the financial results of this segment of our business. An increase in the default rate on the mortgages we originate may adversely affect our ability to sell the mortgages or the pricing we receive upon the sale

of mortgages or may increase our recourse obligations for previous originations. We may be responsible for losses associated with mortgage loans originated and sold to third-party purchasers in the event of errors or omissions relating to certain representations and warranties that the loans sold meet certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance, and the validity of certain borrower representations in the connection with the loan, and we may be required to repurchase certain of those mortgage loans or provide indemnification. Repurchased mortgage loans and/or the settlement of claims associated with such loans could adversely affect our business or financial results. We establish reserves for estimated losses and future repurchase obligations for mortgage loans we have sold; however, actual future obligations related to these mortgages could differ significantly from our current estimated amounts. Additionally, in fiscal 2020 we began retaining mortgage servicing rights on some of our originations. As servicer for these loans, we may incur losses by having to advance payments to the mortgage-backed securities (MBS) bondholders to the extent there are insufficient collections to satisfy the required principal and interest remittances of the underlying MBS.

Constriction of the credit and public capital markets could limit our ability to access capital and increase our costs of capital.

During past economic and housing downturns, the credit markets constricted and reduced some sources of liquidity that were previously available to us. Consequently, we relied principally on our cash on hand to meet our working capital needs and repay outstanding indebtedness during those times. There likely will be periods in the future when financial market upheaval will increase our cost of capital or limit our ability to access the public debt markets or obtain bank financing.

Our homebuilding operations utilize a $2.19 billion senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $3.0 billion, subject to certain conditions and availability of additional bank commitments. Our homebuilding revolving credit facility also provides for the issuance of letters of credit with a sublimit equal to 100% of the revolving credit commitment. The maturity date of the facility is April 20, 2026. Forestar and its subsidiaries, our financial services and rental subsidiaries, and certain of our other subsidiaries are not guarantors under our homebuilding revolving credit facility or our homebuilding senior notes.

Forestar has a $410 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $600 million, subject to certain conditions and availability of additional bank commitments. The Forestar revolving credit 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. The maturity date of the facility is April 16, 2025. The Forestar revolving credit facility is guaranteed by Forestar's wholly-owned subsidiaries that are not immaterial subsidiaries or have not been designated as unrestricted subsidiaries. The Forestar revolving credit facility is not guaranteed by us or our other subsidiaries.

Our mortgage subsidiary utilizes a $1.4 billion mortgage repurchase facility to finance the majority of the loans it originates. The capacity of the facility automatically increases during certain higher volume periods and can be further increased through additional commitments. The total capacity of the facility at September 30, 2021 was $1.8 billion, and its maturity date is February 18, 2022. Adverse changes in market conditions could make the renewal of these facilities more difficult or could result in an increase in the cost of these facilities or a decrease in the committed amounts. Such changes affecting our mortgage repurchase facility may also make it more difficult or costly to sell the mortgages that we originate.

We regularly assess our projected capital requirements to fund growth in our business, repay debt obligations, pay dividends, repurchase our common stock 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 SEC in July 2021, registering debt and equity securities that may be issued from time to time in amounts to be determined. Forestar also had an effective shelf registration statement filed with the SEC in September 2018, registering $500 million of equity securities. At September 30, 2021, $359.9 million remained available for issuance under Forestar's shelf registration statement, of which $65.6 million was reserved for sales under its at-the-market equity offering program. In October 2021, after the expiration of Forestar's existing registration statement and at-the-market equity offering program, a new shelf registration statement became effective, registering $750 million of equity securities. Forestar anticipates entering into a new at-the-market equity offering program under this new shelf registration statement. 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 or obtain additional financing will provide sufficient liquidity to fund our near-term working capital needs and debt obligations. Adverse changes in economic, homebuilding or capital market conditions due to COVID-19 or otherwise could negatively affect our business, liquidity and financial results, restrict our ability to obtain additional capital or 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 could decrease our buyers' ability to obtain financing and adversely affect our business or financial results.

The mortgage loans originated by our financial services operations are primarily eligible for sale to Fannie Mae, Freddie Mac or Ginnie Mae and are typically sold to third-party purchasers. The secondary market for mortgage loans continues to primarily desire securities backed by Fannie Mae, Freddie Mac or Ginnie Mae, and we believe the liquidity these agencies provide to the mortgage industry is important to the housing market. Any significant change regarding the long-term structure and viability of Fannie Mae and Freddie Mac could result in adjustments to the size of their loan portfolios and to guidelines for their loan products. Additionally, a reduction in the availability of financing provided by these institutions could adversely affect interest rates, mortgage availability and sales of new homes and mortgage loans. During fiscal 2021, approximately 52% of our mortgage loans were sold directly to Fannie Mae or into securities backed by Ginnie Mae, and 41% were sold to two other major financial entities. On an ongoing basis, we seek to establish loan purchase arrangements with additional financial entities. If we are unable to sell mortgage loans to purchasers on attractive terms, our ability to originate and sell mortgage loans at competitive prices could be limited, which would negatively affect our profitability.

The FHA insures mortgage loans that generally have lower credit requirements and is an important source for financing the sale of our homes. Changes, restrictions or significant premium increases in FHA programs in the future may negatively affect the availability or affordability of FHA financing, which could adversely affect our ability to sell homes.

Some of our customers may qualify for 100% financing through programs offered by the VA and the USDA and certain other housing finance agencies. These programs are subject to changes in regulations, lending standards and government funding levels. There can be no assurances that these programs or other programs will continue to be available in our homebuilding markets or that they will be as attractive to our customers as the programs currently offered, which could negatively affect our sales.

Mortgage rates are currently low compared to most historical periods; however, market conditions could change causing mortgage rates to rise in the future. When interest rates increase, the cost of owning a home increases, which will likely reduce the number of potential homebuyers who can obtain mortgage financing and could result in a decline in the demand for our homes.

The risks associated with our land, lot and rental inventory could adversely affect our business or financial results.

Inventory risks are substantial for our homebuilding, Forestar and rental businesses. There are risks inherent in controlling, owning and developing land. If housing demand declines, we may not be able to build, sell and rent homes profitably in some of our communities, and we may not be able to fully recover the costs of some of the land and lots we own. Also, the values of our owned undeveloped land, lots and inventories may fluctuate significantly due to changes in market conditions. As a result, our deposits for lots controlled through purchase contracts may be put at risk, we may have to sell or rent homes or land for a lower profit margin or record inventory impairment charges on our land and lots. A significant deterioration in economic or homebuilding industry conditions may result in substantial inventory impairment charges.

We cannot make any assurances that our growth strategies, acquisitions or investments will be successful or will not expose us to additional risks or other negative consequences.

In recent years, we have primarily grown our business by increasing our investments in land, lot and home inventories in our existing homebuilding markets. We have also expanded through investments in new product offerings, new geographic markets and the growth of our rental property operations. Investments in land, lots, home inventories and rental properties can expose us to risks of economic loss and asset impairments if housing conditions weaken or if we are unsuccessful in implementing our growth strategies.

In fiscal 2018, we acquired 75% of the outstanding shares of Forestar and at September 30, 2021, we owned 63% of its outstanding shares. Forestar is a publicly traded residential lot development company with operations in 56 markets across 23 states as of September 30, 2021. Forestar's strategy is focused on making significant investments in land acquisition and development to expand its residential lot development business across a geographically diversified national platform and consolidating market share in the fragmented U.S. lot development industry. Our homebuilding divisions acquire finished lots from Forestar in accordance with the master supply agreement between the two companies, and we provide Forestar certain administrative, compliance, operational and procurement services through a shared services agreement. As the controlling shareholder, we strongly influence the strategic direction and operations of Forestar.

In addition to the investment and merger with Forestar, we have acquired the homebuilding operations of several homebuilding companies in recent years, and we may make strategic acquisitions of or investments in other companies, operations or assets in the future. Such acquisitions and investments may have risks similar to those related to land, lots and home inventories, but they may also expose us to additional risks or other negative consequences. These transactions may not advance our business strategy, provide a satisfactory return on our investment or provide other benefits we anticipate. Also, the integration of these transactions may not be successful and may require significant time and resources, which may divert management's attention from other operations. Acquisitions and investments could also expose us to material liabilities not discovered in the due diligence process and may lead to litigation. If these transactions under-perform our expectations or are unsuccessful, we may incur significant expenses or write-offs of inventory, other assets or intangible assets such as goodwill. Acquisitions and investments can result in dilution to existing stockholders if we issue our common stock as consideration and can increase our debt levels or reduce our liquidity if we purchase them with cash. The magnitude, timing and nature of any future acquisitions or investments will depend on a number of factors, including our ability to identify suitable additional markets or acquisition candidates, the negotiation of acceptable terms, our financial position and general economic and business conditions. We also may seek to divest an investment or a business and may have difficulty selling such investment or business on acceptable terms in a timely manner.

Our business and financial results could be adversely affected by significant inflation, higher interest rates or deflation.

Inflation can adversely affect us by increasing costs of land, materials and labor. In addition, significant inflation is often accompanied by higher interest rates, which have a negative impact on housing affordability. In a highly inflationary environment, depending on industry and other economic conditions, we may be precluded from raising home prices enough to keep up with the rate of inflation, which could reduce our profit margins. Moreover, in a highly inflationary environment, our cost of capital, labor and materials can increase and the purchasing power of our cash resources can decline, which could have an adverse impact on our business or financial results.

Alternatively, a significant period of deflation could cause a decrease in overall spending and borrowing levels. This could lead to deterioration in economic conditions, including an increase in the rate of unemployment. Deflation could also cause the value of our inventories to decline or reduce the value of existing homes below the related mortgage loan balance, which could potentially increase the supply of existing homes. If oil prices decline significantly, economic conditions in markets that have significant exposure to the energy sector may weaken. These, or other factors that increase the risk of significant deflation, could have a negative impact on our business or financial results.

Supply shortages and other risks related to acquiring land, building materials and skilled labor could increase our costs and delay deliveries.

The homebuilding and lot development industries have from time to time experienced significant difficulties that can affect the cost or timing of construction, including:

- difficulty in acquiring land suitable for residential building at affordable prices in locations where our potential customers want to live;
- shortages of qualified subcontractors;
- reliance on local subcontractors, manufacturers, distributors and land developers who may be inadequately capitalized;
- shortages of materials; and
- significant increases in the cost of materials, particularly increases in the price of lumber, drywall and cement, which are significant components of home construction costs.

In addition, tariffs, duties and/or trade restrictions imposed or increased on imported materials and goods that are used in connection with the construction and delivery of our homes, including steel, aluminum and lumber, may raise our costs for these items or for the products made with them. These factors may cause construction delays or cause us to incur more costs building our homes.

As restrictive orders relating to COVID-19 were eased and economic activity resumed, demand for our homes increased significantly. The effects of the pandemic combined with the improvement in economic conditions and the strong demand for new homes caused multiple disruptions in our supply chain, and have resulted in shortages in certain building materials and tightness in the labor market, which has caused our construction cycle to lengthen and costs of building materials to increase. If shortages and cost increases in building materials and tightness in the labor market persist for a prolonged period of time, our profit margins could be adversely impacted if we are unable to pass on future cost increases to our homebuyers by increasing the selling price of our homes.

Public health issues such as a major epidemic or pandemic could adversely affect our business or financial results.

The U.S. and other countries have experienced, and may experience in the future, outbreaks of contagious diseases that affect public health and public perception of health risk. In December 2019, COVID-19 emerged in the Wuhan region of China and subsequently spread worldwide. The World Health Organization declared COVID-19 a pandemic, resulting in federal, state and local governments and private entities mandating various restrictions requiring closure of non-essential businesses for a period of time, which began to adversely affect our business in March 2020. As economic activity resumed and restrictive orders relating to COVID-19 were eased, demand for our homes improved significantly during the remainder of fiscal 2020 and remained strong throughout fiscal 2021. However, the effects of the pandemic combined with the improvement in economic conditions and the strong demand for new homes caused multiple disruptions in our supply chain and have resulted in shortages in certain building materials and tightness in the labor market, which has caused our construction cycle to lengthen.

There is uncertainty regarding the extent to which and how long COVID-19 will impact the U.S. economy and our supply chain. The extent to which COVID-19 impacts our operational and financial performance will depend on future developments, including the duration and spread of COVID-19 or other variant strains and the impact on our customers, trade partners and employees, all of which are highly uncertain and cannot be predicted. If COVID-19 or other variant strains have a significant negative impact on economic conditions over a prolonged period of time, our results of operations and financial condition could be adversely impacted.

Our business and financial results could be adversely affected by weather conditions and natural disasters.

Physical risks, including weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, volcanic activity, droughts, floods, hailstorms, heavy or prolonged precipitation, wildfires and others, can harm our business. Additionally, the physical impacts of climate change may cause these occurrences to increase in frequency, severity and duration. Any such events can delay our development work, home construction and home closings, unfavorably affect the cost or availability of materials or labor, damage homes under construction, lead to changing consumer preferences and/or negatively impact demand for new homes in affected areas. There has been no material impact on our business from these events or material operational challenges resulting from these events, but they could adversely affect our business in the future. The climates and geology of many of the states in which we operate, including California, Florida, Texas and other coastal areas where we have some of our larger operations and which have experienced recent natural disasters, present increased risks of adverse weather or natural disasters.

Homebuilding is subject to home warranty and construction defect claims in the ordinary course of business that can be significant.

We are subject to home warranty and construction defect claims arising in the ordinary course of our homebuilding business. We rely on subcontractors to perform the actual construction of our homes, and in many cases, to select and obtain construction materials. Despite our detailed specifications and monitoring of the construction process, our subcontractors occasionally do not meet adequate quality standards in the construction of our homes. When we find these issues, we repair them in accordance with our warranty obligations. We spend significant resources to repair items in homes we have sold to fulfill the warranties we issued to our homebuyers. Additionally, we are subject to construction defect claims which can be costly to defend and resolve in the legal system. Warranty and construction defect matters can also result in negative publicity in the media and on the internet, which can damage our reputation and adversely affect our ability to sell homes.

Based on the large number of homes we have sold over the years, our potential liabilities related to warranty and construction defect claims are significant. Consequently, we have generally maintained product liability insurance each year, and we seek to obtain indemnities and certificates of insurance from subcontractors covering claims related to their workmanship and materials. We establish warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes built. Because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all of our future warranty and construction defect claims. Contractual indemnities can be difficult to enforce, we may be responsible for applicable self-insured retentions and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered by and the availability of product liability insurance for construction defects is limited and costly. We have responded to increases in insurance costs and coverage limitations by self-insuring our risk for certain years and by increasing our self-insured retentions and claim reserves. There can be no assurance that coverage will not be further restricted or become more costly. If costs to resolve our future warranty and construction defect claims exceed our estimates, our financial results and liquidity could be adversely affected.

A health and safety incident relating to our operations could be costly in terms of potential liability and reputational damage.

Building and land development sites are inherently dangerous, and operating in this industry poses certain inherent health and safety risks. Due to health and safety regulatory requirements and the number of homes we construct, health and safety performance is critical to the success of our business. Any failure in health and safety performance, including compliance with potential new workplace requirements related to the COVID-19 pandemic, may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly and could expose us to liability that could be costly. Such an incident could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to attract customers and employees, which in turn could have a material adverse effect on our financial results and liquidity.

We are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and cash flows.

We often are required to provide surety bonds to secure our performance or obligations under construction contracts, development agreements and other arrangements. At September 30, 2021, we had $2.3 billion of outstanding surety bonds. Our ability to obtain surety bonds primarily depends upon our credit rating, financial condition, past performance and other factors, including the capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue performance bonds for construction and development activities. If we are unable to obtain surety bonds when required, our results of operations and cash flows could be adversely affected.

Increases in the costs of owning a home could prevent potential customers from buying our homes and adversely affect our business or financial results.

Significant expenses of owning a home, including mortgage loan interest and state and local income and property taxes, have historically been deductible expenses for an individual's federal income taxes, subject to various limitations. The Tax Cuts and Jobs Act, which became effective January 1, 2018, established new limits on these federal tax deductions that could reduce the actual or perceived affordability of homeownership. These or any further changes in income tax laws by the federal or state government to eliminate or substantially reduce income tax benefits associated with homeownership, could adversely affect demand for and sales prices of new homes, especially in areas with relatively high housing prices or high taxes.

In addition, increases in property tax rates by local governmental authorities, as experienced in some areas in response to reduced federal and state funding, could adversely affect the amount of financing our potential customers could obtain or their desire to purchase new homes.

Further, existing and prospective regulatory and societal responses to climate change intended to reduce potential climate change impacts may increase the upfront costs of purchasing a home, costs to maintain the home and its systems, energy and utility costs and the cost to obtain homeowner and various hazard and flood insurance, or limit homeowners' ability to obtain these insurance policies altogether. Although these items have had no material effect on our business, they could adversely affect our business in the future.

Governmental regulations and environmental matters could increase the cost and limit the availability of our land development and homebuilding projects and adversely affect our business or financial results.

We are subject to extensive and complex regulations that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to development or construction being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water or sewage facilities, roads or other local services. New housing developments may also be subject to various assessments for schools, parks, streets and other public improvements. In addition, in many markets government authorities have implemented no growth or growth control initiatives. Any of these may limit, delay or increase the costs of development or home construction.

We are also subject to a significant number and variety of local, state and federal laws and regulations concerning protection of health, safety, labor standards and the environment. The impact of environmental laws varies depending upon the prior uses of the building site or adjoining properties and may be greater in areas with less supply where undeveloped land or desirable alternatives are less available. These matters may result in delays, may cause us to incur substantial compliance, remediation, mitigation and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas. Government agencies also routinely initiate audits, reviews or investigations of our business practices to ensure compliance with these laws and regulations, which can cause us to incur costs or create other disruptions in our business that can be significant.

Recently, there has been growing concern from advocacy groups, government agencies and the general public over the effects of climate change on the environment. Transition risks, such as government restrictions, standards or regulations intended to reduce greenhouse gas emissions and potential climate change impacts, are emerging and may increase in the future in the form of restrictions or additional requirements on land development and home construction in certain areas. Such restrictions and requirements could increase our operating and compliance costs or require additional technology and capital investment, which could adversely affect our results of operations. This is a particular concern in the western United States, where some of the most extensive and stringent environmental laws and residential building construction standards in the country have been enacted, and where we have business operations. We believe we are in compliance in all material respects with existing climate-related government restrictions, standards and regulations applicable to our business, and such compliance has not had a material impact on our business. However, given the rapidly changing nature of environmental laws and matters that may arise that are not currently known, we cannot predict our future exposure concerning such matters, and our future costs to achieve compliance or remedy potential violations could be significant.

Additionally, actual or perceived environmental, social, governance and other sustainability (ESG) matters and our response to these matters could harm our business. Increasing governmental and societal attention to ESG matters, including expanding mandatory and voluntary reporting, diligence, and disclosure on topics such as climate change, human capital, labor and risk oversight, could expand the nature, scope, and complexity of matters that we are required to control, assess and report. These factors may alter the environment in which we do business and may increase the ongoing costs of compliance and adversely impact our results of operations and cash flows. If we are unable to adequately address such ESG matters or fail to comply with all laws, regulations, policies and related interpretations, it could negatively impact our reputation and our business results.

The subcontractors we rely on to perform the actual construction of our homes are also subject to a significant number of local, state and federal laws and regulations, including laws involving matters that are not within our control. If the subcontractors who construct our homes fail to comply with all applicable laws, we can suffer reputational damage, and may be exposed to possible liability.

We are also subject to an extensive number of laws and regulations because our common stock and debt securities and the common stock of our Forestar subsidiary are publicly traded in the capital markets. These regulations govern our communications with our shareholders and the capital markets, our financial statement disclosures and our legal processes, and they also impact the work required to be performed by our independent registered public accounting firm and our legal counsel. Changes in these laws and regulations, including the subsequent implementation of rules by the administering government authorities, may require us to incur additional compliance costs, and such costs may be significant.

Governmental regulation of our financial services operations could adversely affect our business or financial results.

Our financial services operations are subject to extensive state and federal laws and regulations, which are administered by numerous agencies, including but not limited to the Consumer Financial Protection Bureau, Federal Housing Finance Agency, U.S. Department of Housing and Urban Development, FHA, VA, USDA, Fannie Mae, Freddie Mac and Ginnie Mae. These laws and regulations include many compliance requirements, including but not limited to licensing, consumer disclosures, fair lending and real estate settlement procedures. As a result, our operations are subject to regular, extensive examinations by the applicable agencies. Additional future regulations or changing rule interpretations and examinations by regulatory agencies may result in more stringent compliance standards and could adversely affect the results of our operations.

We operate in competitive industries, and competitive conditions could adversely affect our business or financial results.

The homebuilding, lot development and rental housing industries are highly competitive. We compete not only for homebuyers and renters, but also for desirable properties, raw materials, skilled labor and financing. We compete with local, regional and national companies in these industries, and also with existing home sales, foreclosures and rental properties. The competitive conditions in these industries can negatively affect our sales volumes, selling prices, leased occupancy levels, rental rates and incentive levels, reduce our profit margins, and cause the value of our inventory or other assets to be impaired. Competition can also affect our ability to acquire suitable land, raw materials and skilled labor at acceptable prices or terms, or cause delays in land development or in construction.

The competitors to our financial services businesses include other mortgage lenders and title companies, including national, regional and local mortgage banks and other financial institutions. Some of these competitors are subject to fewer governmental regulations and have greater access to capital than we do, may operate with different lending criteria and/or may offer a broader or more attractive array of financing and other products and services to potential customers.

Our businesses compete with other companies across all industries to attract and retain highly skilled and experienced employees, managers and executives. Competition for the services of these individuals increases as business conditions improve in the homebuilding, lot development, financial services and rental housing industries and in the general economy. If we are unable to attract and retain key employees, managers or executives, our business could be adversely affected.

Risks Related to our Indebtedness

We have significant amounts of debt and may incur additional debt, which could affect our financial health and our ability to raise additional capital to fund our operations or potential acquisitions.

As of September 30, 2021, our consolidated debt was $5.4 billion, which consisted of $3.2 billion related to our homebuilding segment, $704.5 million related to our Forestar segment and $1.5 billion related to our financial services segment. The indentures governing our homebuilding senior notes do not restrict the incurrence of future unsecured debt by us or our homebuilding subsidiaries or the incurrence of secured or unsecured debt by our non-guarantor subsidiaries, and the agreement governing our homebuilding revolving credit facility allows us to incur a substantial amount of future unsecured debt. Also, the indentures governing our homebuilding senior notes and the agreement governing our homebuilding revolving credit facility impose restrictions on our ability and on that of the guarantors under our homebuilding senior notes and our homebuilding revolving credit facility to incur debt secured by certain assets, but still permit us and our homebuilding subsidiaries to incur significant amounts of additional secured debt. The Forestar revolving credit facility and the indentures governing Forestar's senior notes impose restrictions on the ability of Forestar and its restricted subsidiaries to incur secured and unsecured debt, but still permit Forestar and its subsidiaries to incur a substantial amount of future secured and unsecured debt, and do not restrict the incurrence of future secured and unsecured debt by Forestar's unrestricted subsidiaries.

The amount and the maturities of our debt and the debt of our subsidiaries could have important consequences. For example, possible consequences for our homebuilding, financial services and Forestar operations each with respect to their individual debt obligations, could:

- require the dedication of a substantial portion of cash flow from operations to payment of debt and reduce the ability to use cash flow for other operating or investing purposes;
- limit the flexibility to adjust to changes in business or economic conditions; and
- limit the ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements.

Servicing our debt requires a significant amount of cash, and we or our subsidiaries may not have sufficient cash flow from our respective businesses to pay our substantial debt.

Our ability and that of our subsidiaries to meet our respective debt service obligations will depend, in part, upon our and our subsidiaries' future financial performance. Future results are subject to the risks and uncertainties described in this report. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by financial, political, business and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of debt or equity, the refinancing of debt or the sale of assets. Changes in prevailing interest rates may affect the cost of our debt service obligations, because borrowings under our revolving credit facilities and mortgage repurchase facility bear interest at floating rates.

The instruments governing our and our subsidiaries' indebtedness impose certain restrictions on our and our subsidiaries' business, and the ability of us and our subsidiaries to comply with related covenants, restrictions or limitations could adversely affect our and our subsidiaries' financial condition or operating flexibility.

The restrictions imposed by our and certain of our subsidiaries' indebtedness could limit our or our subsidiaries' ability to plan for or react to market or economic conditions or meet capital needs or otherwise restrict our activities or business plans and adversely affect our or our subsidiaries' ability to finance our operations, acquisitions, investments or strategic alliances or other capital needs or to engage in other business activities that would be in our interest.

The agreements governing our indebtedness contain restrictions on our and our guarantor subsidiaries' ability to, among other things, engage in sale and leaseback transactions with respect to certain assets, incur secured debt, create liens, pay dividends and make other distributions on or redeem or repurchase equity securities, sell certain assets and engage in mergers, consolidations or sales of all or substantially all of our assets. The instruments governing Forestar's indebtedness contain restrictions on the ability of Forestar and certain of its subsidiaries to, among other things, incur additional indebtedness, create liens, pay dividends and make other distributions on or redeem or repurchase equity securities, sell certain assets, enter into affiliate transactions and engage in mergers, consolidations or sales of all or substantially all of Forestar's assets.

In addition, the agreements governing certain of our and our subsidiaries' debt instruments contain the following financial covenants:

Homebuilding revolving credit facility. Our homebuilding revolving credit facility contains financial covenants requiring the maintenance of a maximum allowable leverage ratio and a borrowing base restriction if our leverage ratio exceeds a certain level. 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.

Forestar's revolving credit facility. The Forestar revolving credit facility contains financial covenants requiring the maintenance by Forestar of a minimum level of tangible net worth, a minimum level of liquidity, a maximum allowable leverage ratio and a borrowing base restriction based on the book value of Forestar's real estate assets and unrestricted cash. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under this revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity.

Mortgage repurchase facility and other restrictions. The mortgage repurchase facility for our mortgage subsidiary requires the maintenance of a minimum level of tangible net worth, a maximum allowable leverage ratio and a minimum level of liquidity by our mortgage subsidiary. A failure to comply with these requirements could allow the lending banks to terminate the availability of funds to our mortgage subsidiary or cause any outstanding borrowings to become due and payable prior to maturity. Any difficulty experienced in complying with these covenants could make the renewal of the facility more difficult or costly.

In addition, although our financial services business is conducted through subsidiaries that are not restricted by the indentures governing our senior notes or the agreement governing our revolving credit facility, the ability of our financial services subsidiaries to distribute funds to our homebuilding operations would be restricted in the event such distribution would cause an event of default under the mortgage repurchase facility or if an event of default had occurred under this facility. Moreover, our right to receive assets from our financial services subsidiaries upon their liquidation or recapitalization is subject to the prior claims of the creditors of these subsidiaries. Any claims we may have to funds from our financial services subsidiaries would be subordinate to subsidiary indebtedness to the extent of any security for such indebtedness and to any indebtedness otherwise recognized as senior to our claims.

Our access to capital and our ability to obtain additional financing could be affected by any downgrade of our debt ratings.

Our homebuilding senior unsecured debt is currently rated investment grade by all three major rating agencies; however, there can be no assurance that we will be able to maintain these ratings. Any lowering of our debt ratings could make accessing the public capital markets or obtaining additional credit from banks more difficult and/or more expensive. Any lowering of Forestar's debt ratings could also make Forestar's ability to access the public capital markets or obtain additional credit from banks more difficult and/or more expensive.

The instruments governing our indebtedness contain change of control provisions which could affect the timing of repayment.

Change of control purchase options under our homebuilding senior notes and change of control default under our homebuilding revolving credit facility. Upon the occurrence of both a change of control and a ratings downgrade event, each as defined in the indentures governing our homebuilding senior notes, we will be required to offer to repurchase such notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. Moreover, a change of control (as defined in our homebuilding revolving credit facility) would constitute an event of default under our homebuilding revolving credit facility, which could result in the acceleration of the repayment of any borrowings outstanding under the facility, a requirement to cash collateralize all letters of credit outstanding thereunder and the termination of the commitments thereunder. If repayment of more than $50 million outstanding under our homebuilding revolving credit facility were accelerated and such acceleration were not rescinded or such indebtedness were not satisfied, in either case within 30 days, an event of default would result under the indentures governing our homebuilding senior notes, entitling the trustee for the notes or holders of at least 25% in principal amount of the relevant series of notes then outstanding to declare all such notes to be due and payable immediately. If purchase offers were required under the indentures for our homebuilding senior notes, repayment of the borrowings under our homebuilding revolving credit facility were required, or if the senior notes were accelerated, we can give no assurance that we would have sufficient funds to pay the required amounts.

Change of control purchase option under Forestar's notes and change of control default under the Forestar revolving credit facility. Upon the occurrence of a change of control triggering event (as defined in the indentures governing Forestar's notes), Forestar will be required to offer to repurchase Forestar's notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. A change of control (as defined in the Forestar revolving credit facility) with respect to Forestar would constitute an event of default under the Forestar revolving credit facility, which could result in the acceleration of the repayment of any borrowings outstanding under the facility, a requirement to cash collateralize all letters of credit outstanding thereunder and the termination of the commitments thereunder. If the maturity of the Forestar revolving credit facility and/or other indebtedness of Forestar and its restricted subsidiaries together having an aggregate principal amount outstanding of $40 million or more is accelerated, an event of default would result under the indentures governing the Forestar notes, entitling the trustee for the Forestar notes or holders of at least 25% in aggregate principal amount of the then outstanding Forestar notes to declare all such Forestar notes to be due and payable immediately. If purchase offers were required under the indentures for Forestar's notes, repayment of the borrowings under Forestar's revolving credit facility were required, or if Forestar's notes were accelerated, we can give no assurance that Forestar would have sufficient funds to pay the required amounts.

General Risk Factors

Damage to our corporate reputation or brands from negative publicity could adversely affect our business, financial results and/or stock price.

Adverse publicity related to our company, industry, personnel, operations or business performance may cause damage to our corporate reputation or brands and may generate negative sentiment, potentially affecting the performance of our business or our stock price, regardless of its accuracy or inaccuracy. Our reputation could be adversely affected by actual or perceived failures or concerns related to ethics, compliance, product quality and safety, environmental matters, privacy, diversity and inclusion, human rights, compensation and benefits and corporate governance, among other things. Negative publicity can be disseminated rapidly through digital platforms, including social media, websites, blogs and newsletters. Customers and other interested parties value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction, and our success in preserving our brand image depends on our ability to recognize, respond to and effectively manage negative publicity in a rapidly changing environment. Adverse publicity or unfavorable commentary from any source could damage our reputation, reduce the demand for our homes or negatively impact the morale and performance of our employees, which could adversely affect our business.

Our business could be adversely affected by the loss of key personnel.

We rely on our key personnel to effectively operate and manage our businesses. Specifically, our success depends heavily on the performance of our homebuilding division and region presidents and their management teams, our rental housing management team, our financial services management team, our corporate office management teams, our Forestar management team and our executive officers. These key personnel have significant experience and skills in the homebuilding, lot development, financial services and rental housing industries, as well as leadership and management abilities that are vital to our success. Our ability to attract and retain our key personnel may be impacted by matters involving reputation, culture, diversity and inclusion, compensation and benefits and our management of executive succession. We seek to retain our key personnel and to have succession plans in place to address the potential loss of key personnel. However, if our retention and succession planning efforts are unsuccessful or if we fail to attract suitable replacements, the loss of key personnel could adversely affect our business.

Our business could be negatively impacted as a result of actions by activist stockholders or others.

We may be subject to actions or proposals from activist stockholders or others that may not align with our business strategies or the interests of our other stockholders. Responding to such actions could be costly and time-consuming, disrupt our business and operations and/or divert the attention of our Board of Directors and senior management from the pursuit of our business strategies. Activist stockholders may create perceived uncertainties as to the future direction of our business or strategy, including with respect to our ESG efforts, which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel, potential homebuyers and business partners and may affect our relationships with current homebuyers, subcontractors, investors and other third parties. In addition, actions of activist stockholders may cause periods of fluctuation in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

Information technology failures, data security breaches, and the failure to satisfy privacy and data protection laws and regulations could harm our business.

We use information technology and other computer resources to carry out important operational and marketing activities and to maintain our business records. These information technology systems are dependent upon global communications providers, web browsers, third-party software and data storage providers and other aspects of the Internet infrastructure that have experienced security breaches, cyber-attacks, ransomware attacks, significant systems failures and service outages in the past. Our normal business activities involve collecting and storing information specific to our homebuyers, renters, employees, vendors and suppliers and maintaining operational and financial information related to our business, both in an office setting and remote locations as needed. A material breach in the security of our information technology systems or other data security controls could include the theft or release of this information. A data security breach, a significant and extended disruption in the functioning of our information technology systems or a breach of any of our data security controls could disrupt our business operations, damage our reputation and cause us to

lose customers, adversely impact our sales and revenue and require us to incur significant expense to address and remediate or otherwise resolve these kinds of issues. The unintended or unauthorized disclosure of personal identifying and confidential information as a result of a security breach could also lead to litigation or other proceedings against us by the affected individuals or business partners, or by regulators. The outcome of such proceedings, which could include penalties or fines, could have a significant negative impact on our business.

We may also be required to incur significant costs to protect against damages caused by information technology failures, security breaches, and the failure to satisfy privacy and data protection laws and regulations in the future as legal requirements continue to increase. The European Union and other international regulators, as well as state governments, have recently enacted or enhanced data privacy regulations, such as the California Consumer Privacy Act, and other governments are considering establishing similar or stronger protections. These regulations impose certain obligations for handling specified personal information in our systems, and for apprising individuals of the information we have collected about them. We have incurred costs in an effort to comply with these requirements, and our costs may increase significantly if new requirements are enacted and based on how individuals exercise their rights. Any noncompliance could result in our incurring substantial penalties and reputational damage, and also could result in litigation.

We provide employee awareness training of cybersecurity threats and routinely utilize information technology security experts to assist us in our evaluations of the effectiveness of the security of our information technology systems, and we regularly enhance our security measures to protect our systems and data. Our increased use of remote work environments and virtual platforms in response to the COVID-19 pandemic may also increase our risk of cyber-attack or data security breaches. We use various encryption, tokenization and authentication technologies to mitigate cybersecurity risks and have increased our monitoring capabilities to enhance early detection and rapid response to potential cyber threats. However, because the techniques used to obtain unauthorized access, disable or degrade systems change frequently and are increasing in sophistication, they often are not recognized until launched against a target. As such, we may be unable to anticipate these techniques, to implement adequate preventative measures or to identify and investigate cybersecurity incidents. Consequently, we cannot provide assurances that a security breach, cyber-attack, data theft or other significant systems or security failures will not occur in the future, and such occurrences could have a material and adverse effect on our consolidated results of operations or financial position.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our homebuilding and lot development operations own inventories of land, lots and homes, and our rental operations own rental properties that are both completed and under construction as part of the ordinary course of our business. We also own office buildings totaling approximately 1.3 million square feet, and we lease approximately 530,000 square feet of office space under leases expiring through November 2026. These properties are located in our various operating markets to house our homebuilding, Forestar, financial services and rental operating divisions and our regional and corporate offices.

We own ranch land and improvements totaling 93,600 acres, most of which has been owned for over 20 years. We use this land to conduct ranching and agricultural activities and to host company meetings and events.

ITEM 3. 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.

With respect to administrative or judicial proceedings involving the environment, we have determined that we will disclose any such proceeding if we reasonably believe such proceeding will result in monetary sanctions, exclusive of interest and costs, at or in excess of $1 million.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NYSE under the symbol "DHI." As of November 11, 2021, the closing price of our common stock on the NYSE was $96.36, and there were approximately 284 holders of record.

In October 2021, our Board of Directors approved a quarterly cash dividend of $0.225 per common share, payable on December 15, 2021, to stockholders of record on December 6, 2021. 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.

We may repurchase shares of our common stock from time to time pursuant to our $1.0 billion common stock repurchase authorization, which was approved by our Board of Directors effective April 20, 2021, and which replaced our prior $1.0 billion common stock repurchase authorization. The authorization has no expiration date. During fiscal 2021, we purchased 10.4 million shares of our common stock for $874.0 million. All share repurchases were made in accordance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934, as amended (Exchange Act). At September 30, 2021, our remaining stock repurchase authorization was $546.2 million. The following table sets forth information concerning our common stock repurchases during the three months ended September 30, 2021.

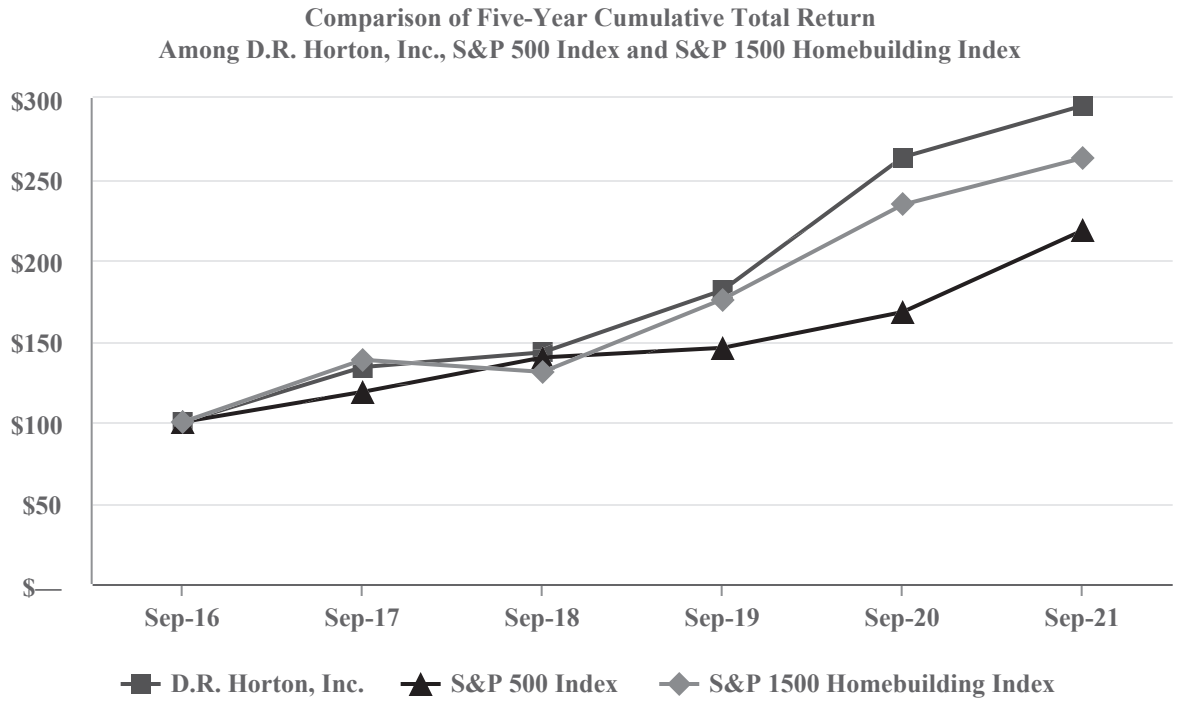
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (In millions)
July 1, 2021 - July 31, 2021	—	$ —	—	$ 758.8
August 1, 2021 - August 31, 2021	760,204	93.68	760,204	687.6
September 1, 2021 - September 30, 2021	1,579,296	89.53	1,579,296	546.2
Total	2,339,500	$ 90.88	2,339,500	$ 546.2

During fiscal years 2021, 2020 and 2019, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended (Securities Act).

The information required by this item with respect to equity compensation plans is set forth under Item 12 of this annual report on Form 10-K and is incorporated herein by reference.

Stock Performance Graph

The following graph illustrates the cumulative total stockholder return on D.R. Horton common stock for the last five fiscal years through September 30, 2021, compared to the S&P 500 Index and the S&P 1500 Homebuilding Index. The comparison assumes a hypothetical investment in D.R. Horton common stock and in each of the foregoing indices of $100 at September 30, 2016 and assumes that all dividends were reinvested. Shareholder returns over the indicated period are based on historical data and should not be considered indicative of future shareholder returns. The graph and related disclosure in no way reflect our forecast of future financial performance.



	September 30,					
	2016	2017	2018	2019	2020	2021
D.R. Horton, Inc.	$ 100.00	$ 133.91	$ 143.01	$ 181.36	$ 263.45	$ 295.26
S&P 500 Index	100.00	118.61	139.85	145.80	167.89	218.26
S&P 1500 Homebuilding Index	100.00	138.42	130.92	175.80	234.15	262.95

This performance graph shall not be deemed to be incorporated by reference into our SEC filings and should not constitute soliciting material or otherwise be considered filed under the Securities Act or the Exchange Act.

ITEM 6. [Reserved]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to promote an understanding of our financial condition, results of operations, liquidity and certain other factors that may affect future results. MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and notes to those statements that appear elsewhere in this Form 10-K. This section generally discusses the results of operations for fiscal 2021 compared to 2020. For similar operating and financial data and discussion of our fiscal 2020 results compared to our fiscal 2019 results, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II of our annual report on Form 10-K for the fiscal year ended September 30, 2020, which was filed with the SEC on November 20, 2020.

The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to any differences include, but are not limited to, those discussed under the caption "Forward-Looking Statements" and under Item 1A, "Risk Factors."

Results of Operations — Overview

Fiscal 2021 Operating Results

In fiscal 2021, our number of homes closed and home sales revenues increased 25% and 35%, respectively, compared to the prior year, and our consolidated revenues increased 37% to $27.8 billion compared to $20.3 billion in the prior year. Our pre-tax income was $5.4 billion in fiscal 2021 compared to $3.0 billion in fiscal 2020, and our pre-tax operating margin was 19.3% compared to 14.7%. Net income was $4.2 billion in fiscal 2021 compared to $2.4 billion in fiscal 2020, and our diluted earnings per share was $11.41 compared to $6.41.

Cash provided by our homebuilding operations was $1.2 billion in fiscal 2021 compared to $1.9 billion in fiscal 2020. In fiscal 2021, our return on equity (ROE) was 31.6% compared to 22.1% in fiscal 2020, and our homebuilding return on inventory (ROI) was 37.9% compared to 24.6%. ROE is calculated as net income attributable to D.R. Horton for the year divided by average stockholders' equity, where average stockholders' equity is the sum of ending stockholders' equity balances of the trailing five quarters divided by five. Homebuilding ROI is calculated as homebuilding pre-tax income for the year divided by average inventory, where average inventory is the sum of ending homebuilding inventory balances for the trailing five quarters divided by five.

During March 2020, the impacts of the COVID-19 pandemic and the related widespread reductions in economic activity across the United States began to adversely affect our business. As economic activity resumed and restrictive orders relating to COVID-19 were eased, demand for our homes improved significantly during the remainder of fiscal 2020 and remained strong throughout fiscal 2021. We believe the increase in demand has been fueled by historically low interest rates on mortgage loans and the limited supply of homes at affordable price points across most of our markets. We are well-positioned for increased demand with our affordable product offerings, lot supply and housing inventory. However, multiple disruptions in the supply chain, combined with the improvement in economic conditions and strong demand for new homes, have resulted in shortages in certain building materials and tightness in the labor market, which has caused our construction cycle to lengthen. We have slowed our home sales pace to more closely align with our production levels, and we are selling homes later in the construction cycle when we have more certainty regarding the home close date for our homebuyers. Based on the current availability of labor and materials, the stage of completion of our current homes in inventory, production schedules and capacity, we expect to continue restricting the pace of our sales orders in many of our communities in the near term to match our production levels.

Within our homebuilding land and lot portfolio, our lots controlled through purchase contracts represent 76% of the lots owned and controlled at September 30, 2021 compared to 70% at September 30, 2020. Our relationship with Forestar and expanded relationships with other land developers across the country have allowed us to continue to increase the controlled portion of our lot pipeline.

We believe our strong balance sheet and liquidity position provide us with the flexibility to operate effectively through changing economic conditions. We plan to continue to generate strong cash flows from our homebuilding operations and manage our product offerings, incentives, home pricing, sales pace and inventory levels to optimize the return on our inventory investments in each of our communities based on local housing market conditions.

Strategy

Our operating strategy focuses on enhancing long-term value to our shareholders by leveraging our financial and competitive position in our core homebuilding business to maximize the returns on our inventory investments and generate strong profitability and cash flows, while managing risk and maintaining financial flexibility to navigate changing economic conditions and make opportunistic strategic investments. Our strategy remains consistent and includes the following initiatives:

- Developing and retaining highly experienced and productive teams of personnel throughout our company that are aligned and focused on continuous improvement in our operational execution and financial performance.
- 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 and a positive experience to our customers 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 market relative to the local new home demand.
- Continuing to seek opportunities to expand the portion of our land and finished lots controlled through purchase contracts with Forestar and other land developers.
- 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.
- Opportunistically evaluating potential acquisitions to enhance our operations and improve returns.
- Ensuring that our financial services business provides high quality mortgage and title services to homebuyers efficiently and effectively.
- Increasing our investments in the construction and leasing of single-family and multi-family rental properties to meet rental demand in high growth suburban markets and selling these properties profitably.

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

Key Results

Key financial results as of and for our fiscal year ended September 30, 2021, as compared to fiscal 2020, were as follows:

Homebuilding:

- Homebuilding revenues increased 35% to $26.6 billion compared to $19.6 billion.
- Homes closed increased 25% to 81,965 homes, and the average closing price of those homes was $323,300.
- Net sales orders increased 4% to 81,378 homes, and the value of net sales orders increased 18% to $27.7 billion.
- Sales order backlog decreased 2% to 26,221 homes, while the value of sales order backlog increased 16% to $9.5 billion.
- Home sales gross margin was 25.5% compared to 21.8%.
- Homebuilding SG&A expense was 7.3% of homebuilding revenues compared to 8.1%.
- Homebuilding pre-tax income was $4.8 billion compared to $2.7 billion.
- Homebuilding pre-tax income was 18.1% of homebuilding revenues compared to 13.6%.
- Homebuilding return on inventory was 37.9% compared to 24.6%.
- Net cash provided by homebuilding operations was $1.2 billion compared to $1.9 billion.
- Homebuilding cash and cash equivalents totaled $3.0 billion compared to $2.6 billion.
- Homebuilding inventories totaled $13.9 billion compared to $11.0 billion.
- Homes in inventory totaled 47,800 compared to 38,000.
- Owned lots totaled 127,800 compared to 112,600, and lots controlled through purchase contracts increased to 402,500 from 264,300.
- Homebuilding debt was $3.2 billion compared to $2.5 billion.
- Homebuilding debt to total capital was 17.8% compared to 17.5%, and net homebuilding debt to total capital was 1.7% compared to (0.3)%.

Forestar:

- Forestar's revenues increased 42% to $1.3 billion compared to $931.8 million. Revenues in fiscal 2021 and 2020 included $1.2 billion and $887.4 million, respectively, of revenue from land and lot sales to our homebuilding segment.

- Forestar's lots sold increased 53% to 15,915 compared to 10,373. Lots sold to D.R. Horton totaled 14,839 compared to 10,164.

- Forestar's pre-tax income was $146.6 million, which included an $18.1 million loss on extinguishment of debt, compared to $78.1 million.

- Forestar's pre-tax income was 11.1% of Forestar revenues compared to 8.4%.

- Forestar's cash and cash equivalents totaled $153.6 million compared to $394.3 million.

- Forestar's inventories totaled $1.9 billion compared to $1.3 billion.

- Forestar's owned and controlled lots totaled 97,000 compared to 60,500. Of these lots, 39,200 were under contract to sell to or subject to a right of first offer with D.R. Horton compared to 30,400.

- Forestar's debt was $704.5 million compared to $641.1 million.

- Forestar's debt to total capital was 41.0% compared to 42.4%. Forestar's net debt to total capital was 35.2% compared to 22.1%.

Financial Services:

- Financial services revenues increased 41% to $823.6 million compared to $584.9 million.

- Financial services pre-tax income increased 49% to $364.6 million compared to $245.2 million.

- Financial services pre-tax income was 44.3% of financial services revenues compared to 41.9%.

Consolidated Results:

- Consolidated pre-tax income increased 80% to $5.4 billion compared to $3.0 billion.

- Consolidated pre-tax income was 19.3% of consolidated revenues compared to 14.7%.

- Income tax expense was $1.2 billion compared to $602.5 million, and our effective tax rate was 21.8% compared to 20.2%.

- Net income attributable to D.R. Horton increased 76% to $4.2 billion compared to $2.4 billion.

- Diluted net income per common share attributable to D.R. Horton increased 78% to $11.41 compared to $6.41.

- Net cash provided by operations was $534.4 million compared to $1.4 billion.

- Stockholders' equity was $14.9 billion compared to $11.8 billion.

- Book value per common share increased to $41.81 compared to $32.53.

- Debt to total capital was 26.7% compared to 26.6%, and net debt to total capital was 12.9% compared to 9.7%.

Results of Operations — Homebuilding

Due to the change in aggregation of our homebuilding operating segments into six new reportable segments during fiscal 2021, the following tables and related discussion of our homebuilding results include comparative information for the fiscal years ended September 30, 2021, 2020 and 2019.

Based on the new aggregation, our six reporting segments and the states in which we have homebuilding operations are as follows:

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

Net Sales Orders (1)	**Net Homes Sold**				
	Year Ended September 30,			**% Change**	
	2021	**2020**	**2019**	**2021 vs 2020**	**2020 vs 2019**
Northwest	4,530	5,308	3,919	(15)%	35 %
Southwest	9,456	10,214	7,382	(7)%	38 %
South Central	23,631	21,511	14,942	10 %	44 %
Southeast	24,239	21,103	15,640	15 %	35 %
East	14,038	14,480	11,011	(3)%	32 %
North	5,484	5,842	3,671	(6)%	59 %
	81,378	78,458	56,565	4 %	39 %
	Value (In millions)				
Northwest	$ 2,320.2	$ 2,342.3	$ 1,737.4	(1)%	35 %
Southwest	4,179.3	3,838.8	2,909.8	9 %	32 %
South Central	6,992.9	5,555.2	3,821.5	26 %	45 %
Southeast	7,632.1	5,781.2	4,122.0	32 %	40 %
East	4,496.9	4,086.3	3,034.1	10 %	35 %
North	2,126.8	2,002.5	1,218.6	6 %	64 %
	$ 27,748.2	$ 23,606.3	$ 16,843.4	18 %	40 %
	Average Selling Price				
Northwest	$ 512,200	$ 441,300	$ 443,300	16 %	— %
Southwest	442,000	375,800	394,200	18 %	(5)%
South Central	295,900	258,200	255,800	15 %	1 %
Southeast	314,900	274,000	263,600	15 %	4 %
East	320,300	282,200	275,600	14 %	2 %
North	387,800	342,800	332,000	13 %	3 %
	$ 341,000	$ 300,900	$ 297,800	13 %	1 %

(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.

Sales Order Cancellations

	Year Ended September 30,								
	Cancelled Sales Orders			Value (In millions)			Cancellation Rate (1)		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Northwest	583	760	540	$ 294.2	$ 334.1	$ 228.5	11 %	13 %	12 %
Southwest	1,497	1,994	1,889	598.0	739.1	697.5	14 %	16 %	20 %
South Central	5,301	5,432	4,184	1,510.2	1,413.2	1,064.2	18 %	20 %	22 %
Southeast	5,356	5,882	4,323	1,585.1	1,604.1	1,128.1	18 %	22 %	22 %
East	3,136	3,948	3,488	947.6	1,073.4	937.4	18 %	21 %	24 %
North	986	1,150	864	354.6	365.0	279.4	15 %	16 %	19 %
	16,859	19,166	15,288	$ 5,289.7	$ 5,528.9	$ 4,335.1	17 %	20 %	21 %

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

Net Sales Orders

2021 versus 2020

The number of net sales orders increased 4% during 2021 compared to 2020, and the value of net sales orders increased 18% to $27.7 billion (81,378 homes) in 2021 from $23.6 billion (78,458 homes) in 2020. The average selling price of net sales orders during fiscal 2021 was $341,000, up 13% from the prior year.

During fiscal 2021, demand for homes remained strong. However, multiple disruptions in the supply chain, combined with the improvement in economic conditions and strong demand for new homes, have resulted in shortages in certain building materials and tightness in the labor market, which has caused our construction cycle to lengthen. As a result, during the second half of fiscal 2021, we slowed our home sales pace to more closely align with our production levels, and we are selling homes later in the construction cycle when we have more certainty regarding the home close date for our homebuyers. Based on the stage of completion of our current homes in inventory, production schedules and capacity, we expect to continue restricting the pace of our sales orders in many of our communities in the near term to match our production levels. Although these challenges may persist for some time, we expect to ultimately increase our production capacity and close more homes in fiscal 2022 than we closed in fiscal 2021.

In regions with an increase in sales volume, the markets contributing most to the increases were the San Antonio and Dallas markets in the South Central and the Florida markets (particularly Tampa) in the Southeast. In regions with a decrease in sales volume, the markets having the most effect were as follows: the Seattle and Portland markets in the Northwest; the Phoenix market in the Southwest; the Charlotte and Atlanta markets in the East; and the Minneapolis market in the North.

Our sales order cancellation rate (cancelled sales orders divided by gross sales orders for the period) was 17% in 2021 compared to 20% in 2020.

2020 versus 2019

The number of net sales orders increased 39% during 2020 compared to 2019, with significant increases in all of our regions. The value of net sales orders increased 40% to $23.6 billion (78,458 homes) in 2020 from $16.8 billion (56,565 homes) in 2019. The average selling price of net sales orders during 2020 was $300,900, up 1% from the prior year.

The markets contributing most to the increases in sales volumes in our regions were as follows: the Denver and Portland markets in the Northwest; the Phoenix and California markets in the Southwest; the Houston and Dallas markets in the South Central; the Florida markets (particularly Tampa) in the Southeast; the Carolina markets (particularly Myrtle Beach and Charlotte) in the East; and the Minneapolis, Delaware and Indiana markets in the North.

Our sales order cancellation rate (cancelled sales orders divided by gross sales orders for the period) was 20% in 2020 compared to 21% in 2019.

Sales Order Backlog	Homes in Backlog				
	As of September 30,			% Change	
	2021	2020	2019	2021 vs 2020	2020 vs 2019
Northwest	954	1,544	694	(38)%	122 %
Southwest	3,438	3,742	1,673	(8)%	124 %
South Central	8,733	7,213	3,667	21 %	97 %
Southeast	7,319	6,922	3,740	6 %	85 %
East	4,217	4,857	2,643	(13)%	84 %
North	1,560	2,405	1,196	(35)%	101 %
	26,221	26,683	13,613	(2)%	96 %
	Value (In millions)				
Northwest	$ 497.7	$ 693.1	$ 301.6	(28)%	130 %
Southwest	1,495.9	1,341.3	675.6	12 %	99 %
South Central	2,825.4	1,904.9	964.2	48 %	98 %
Southeast	2,534.7	1,968.6	1,051.3	29 %	87 %
East	1,469.4	1,426.4	748.6	3 %	91 %
North	640.0	851.3	398.8	(25)%	113 %
	$ 9,463.1	$ 8,185.6	$ 4,140.1	16 %	98 %
	Average Selling Price				
Northwest	$ 521,700	$ 448,900	$ 434,600	16 %	3 %
Southwest	435,100	358,400	403,800	21 %	(11)%
South Central	323,500	264,100	262,900	22 %	— %
Southeast	346,300	284,400	281,100	22 %	1 %
East	348,400	293,700	283,200	19 %	4 %
North	410,300	354,000	333,400	16 %	6 %
	$ 360,900	$ 306,800	$ 304,100	18 %	1 %

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.

Home Closings and Revenue	Homes Closed				
	Year Ended September 30,			% Change	
	2021	2020	2019	2021 vs 2020	2020 vs 2019
Northwest	5,120	4,458	3,878	15 %	15 %
Southwest	9,760	8,145	7,578	20 %	7 %
South Central	22,236	17,965	15,428	24 %	16 %
Southeast	23,842	17,921	15,411	33 %	16 %
East	14,678	12,266	11,086	20 %	11 %
North	6,329	4,633	3,594	37 %	29 %
	81,965	65,388	56,975	25 %	15 %
	Home Sales Revenue (In millions)				
Northwest	$ 2,515.6	$ 1,950.8	$ 1,718.3	29 %	14 %
Southwest	4,024.7	3,173.1	2,999.7	27 %	6 %
South Central	6,104.2	4,614.6	3,932.9	32 %	17 %
Southeast	7,066.1	4,863.8	4,009.9	45 %	21 %
East	4,453.9	3,408.5	3,075.9	31 %	11 %
North	2,338.1	1,550.0	1,188.3	51 %	30 %
	$ 26,502.6	$ 19,560.8	$ 16,925.0	35 %	16 %
	Average Selling Price				
Northwest	$ 491,300	$ 437,600	$ 443,100	12 %	(1)%
Southwest	412,400	389,600	395,800	6 %	(2)%
South Central	274,500	256,900	254,900	7 %	1 %
Southeast	296,400	271,400	260,200	9 %	4 %
East	303,400	277,900	277,500	9 %	— %
North	369,400	334,600	330,600	10 %	1 %
	$ 323,300	$ 299,100	$ 297,100	8 %	1 %

Home Sales Revenue

2021 versus 2020

Revenues from home sales increased 35% to $26.5 billion (81,965 homes closed) in 2021 from $19.6 billion (65,388 homes closed) in 2020. Home sales revenues increased in all of our regions due to an increase in the number of homes closed and to a lesser extent, an increase in average selling prices.

The number of homes closed in 2021 increased 25% from 2020. The markets contributing most to the increased closing volumes in our regions were as follows: the Denver and Salt Lake City markets in the Northwest; the Phoenix and California markets in the Southwest; the Houston and Dallas markets in the South Central; the Florida markets (particularly Tampa) in the Southeast; the Carolina markets (particularly Myrtle Beach) in the East; and the Indiana and Delaware markets in the North.

2020 versus 2019

Revenues from home sales increased 16% to $19.6 billion (65,388 homes closed) in 2020 from $16.9 billion (56,975 homes closed) in 2019. Home sales revenues increased in all of our regions primarily due to an increase in the number of homes closed.

The number of homes closed in 2020 increased 15% from 2019. The markets contributing most to the increase in closing volumes in our regions were as follows: the Denver and Portland markets in the Northwest; the California markets in the Southwest; the Houston, Dallas and San Antonio markets in the South Central; the Florida markets (particularly Tampa) in the Southeast; the Carolina markets (particularly Myrtle Beach and Charlotte) in the East; and the Delaware, Indiana and Iowa markets in the North.

Homebuilding Operating Margin Analysis

	Percentages of Related Revenues		
	Year Ended September 30,		
	2021	2020	2019
Gross profit — home sales	25.5 %	21.8 %	20.2 %
Gross profit — land/lot sales and other	25.1 %	27.8 %	18.3 %
Inventory and land option charges	(0.1)%	(0.1)%	(0.3)%
Gross profit — total homebuilding	25.4 %	21.7 %	19.9 %
Selling, general and administrative expense	7.3 %	8.1 %	8.7 %
Other (income) expense	— %	(0.1)%	(0.1)%
Homebuilding pre-tax income	18.1 %	13.6 %	11.2 %

Home Sales Gross Profit

2021 versus 2020

Gross profit from home sales increased to $6.9 billion in 2021 from $4.3 billion in 2020 and increased 370 basis points to 25.5% as a percentage of home sales revenues. The percentage increase resulted from improvements of 340 basis points due to the average selling price of our homes closed increasing by more than the average cost of those homes, 20 basis points due to a decrease in the amortization of capitalized interest and 10 basis points due to a decrease in warranty and construction defect costs.

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. If new home demand declines from current levels, we would expect our gross profit margins to also decline.

2020 versus 2019

Gross profit from home sales increased to $4.3 billion in 2020 from $3.4 billion in 2019 and increased 160 basis points to 21.8% as a percentage of home sales revenues. The percentage increase resulted from improvements of 150 basis points due to a decrease in the average cost of our homes closed while the average selling price increased slightly, 20 basis points from a decrease in the amount of purchase accounting adjustments related to prior year acquisitions and 10 basis points due to a decrease in the amortization of capitalized interest, partially offset by increased warranty and construction defect costs of 20 basis points.

Land/Lot Sales and Other Revenues

Land/lot sales and other revenues from our homebuilding operations were $75.0 million, $80.7 million and $91.9 million in fiscal 2021, 2020 and 2019, respectively. 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 September 30, 2021, our homebuilding operations had $25.4 million of land held for sale that we expect to sell in the next twelve months.

Inventory and Land Option Charges

At the end of each quarter, we review the performance and outlook for all of our communities and land inventories for indicators of potential impairment and perform detailed impairment evaluations and analyses when necessary. As of September 30, 2021, we determined that no communities were impaired, and no impairment charges were recorded during the three months ended September 30, 2021. There were $5.6 million of homebuilding impairment charges recorded during fiscal 2021 compared to $1.7 million and $24.9 million of impairment charges recorded in fiscal 2020 and 2019, 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. If the housing market or economic conditions are adversely affected for a prolonged period, we may be required to evaluate additional communities for potential impairment. These evaluations could result in additional impairment charges, which could be significant.

During fiscal 2021, 2020 and 2019, earnest money and pre-acquisition cost write-offs related to land purchase contracts that we have terminated or expect to terminate were $19.3 million, $21.2 million and $28.3 million, respectively.

Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities was $1.9 billion, $1.6 billion and $1.5 billion in fiscal 2021, 2020 and 2019, respectively, an increase of 22% in 2021 and 8% in 2020 from the respective prior years. SG&A expense as a percentage of homebuilding revenues was 7.3%, 8.1% and 8.7% in fiscal 2021, 2020 and 2019, respectively.

Employee compensation and related costs were $1.6 billion, $1.2 billion and $1.1 billion in fiscal 2021, 2020 and 2019, respectively, representing 81%, 75% and 72% of SG&A costs in those years. These costs increased 31% in 2021 and 13% in 2020. Our homebuilding operations employed 8,429, 7,281 and 6,810 people at September 30, 2021, 2020 and 2019, 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 was $93.6 million, $93.0 million and $104.7 million in fiscal 2021, 2020 and 2019, respectively. Interest charged to cost of sales was 0.7%, 0.8% and 0.9% of total cost of sales (excluding inventory and land option charges) in those years.

Other Income

Other income, net of other expenses, included in our homebuilding operations was $10.3 million, $11.7 million and $9.5 million in fiscal 2021, 2020 and 2019, respectively. Other income consists of interest 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 are not significant, either individually or in the aggregate.

Business Acquisition

In October 2020, we acquired the homebuilding operations of Braselton Homes in Corpus Christi, Texas for approximately $23.0 million in cash. The assets acquired included approximately 90 homes in inventory, 95 lots and control of approximately 840 additional lots through purchase contracts. We also acquired a sales order backlog of approximately 125 homes.

Homebuilding Results by Reporting Region

	Year Ended September 30,								
	Homebuilding Revenues			Homebuilding Pre-tax Income (1)			Pre-tax Income as a Percentage of Homebuilding Revenues		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
	(In millions)								
Northwest	$ 2,516.6	$ 1,953.4	$ 1,721.5	$ 510.8	$ 264.5	$ 222.9	20.3 %	13.5 %	12.9 %
Southwest	4,071.0	3,230.3	3,050.8	653.1	366.1	284.5	16.0 %	11.3 %	9.3 %
South Central	6,111.2	4,625.9	3,944.0	1,150.2	714.9	527.6	18.8 %	15.5 %	13.4 %
Southeast	7,079.6	4,871.5	4,023.5	1,371.9	709.5	477.8	19.4 %	14.6 %	11.9 %
East	4,459.0	3,410.1	3,081.2	795.1	484.3	361.9	17.8 %	14.2 %	11.7 %
North	2,340.2	1,550.3	1,195.9	331.7	126.2	36.0	14.2 %	8.1 %	3.0 %
	$ 26,577.6	$ 19,641.5	$ 17,016.9	$ 4,812.8	$ 2,665.5	$ 1,910.7	18.1 %	13.6 %	11.2 %

(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.

2021 versus 2020

Northwest Region — Homebuilding revenues increased 29% in fiscal 2021 compared to fiscal 2020, primarily due to increases in the number of homes closed in our Denver, Salt Lake City and Seattle markets as well as an increase in the average selling price. The region generated pre-tax income of $510.8 million in 2021 compared to $264.5 million in 2020. Gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) increased by 620 basis points in 2021 compared to 2020, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 60 basis points in 2021 compared to 2020, primarily due to the increase in homebuilding revenues.

Southwest Region — Homebuilding revenues increased 26% in fiscal 2021 compared to fiscal 2020, primarily due to increases in the number of homes closed in our California and Phoenix markets. The region generated pre-tax income of $653.1 million in 2021 compared to $366.1 million in 2020. Home sales gross profit percentage increased by 380 basis points in 2021 compared to 2020, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 100 basis points in 2021 compared to 2020, primarily due to the increase in homebuilding revenues.

South Central Region — Homebuilding revenues increased 32% in fiscal 2021 compared to fiscal 2020, primarily due to increases in the number of homes closed in our Houston, Dallas and Austin markets. The region generated pre-tax income of $1.2 billion in 2021 compared to $714.9 million in 2020. Home sales gross profit percentage increased by 260 basis points in 2021 compared to 2020, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 70 basis points in 2021 compared to 2020, primarily due to the increase in homebuilding revenues.

Southeast Region — Homebuilding revenues increased 45% in fiscal 2021 compared to fiscal 2020, primarily due to increases in the number of homes closed in all of our markets. The region generated pre-tax income of $1.4 billion in 2021 compared to $709.5 million in 2020. Home sales gross profit percentage increased by 390 basis points in 2021 compared to 2020, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 100 basis points in 2021 compared to 2020, primarily due to the increase in homebuilding revenues.

East Region — Homebuilding revenues increased 31% in fiscal 2021 compared to fiscal 2020, primarily due to increases in the average selling price of homes closed in all markets. The region generated pre-tax income of $795.1 million in 2021 compared to $484.3 million in 2020. Home sales gross profit percentage increased by 290 basis points in 2021 compared to 2020, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 70 basis points in 2021 compared to 2020, primarily due to the increase in homebuilding revenues.

North Region — Homebuilding revenues increased 51% in fiscal 2021 compared to fiscal 2020, primarily due to increases in the number of homes closed in our Indianapolis and Delaware markets. The region generated pre-tax income of $331.7 million in 2021 compared to $126.2 million in 2020. Home sales gross profit percentage increased by 490 basis points in 2021 compared to 2020, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 110 basis points in 2021 compared to 2020, primarily due to the increase in homebuilding revenues.

2020 versus 2019

Northwest Region — Homebuilding revenues increased 13% in fiscal 2020 compared to fiscal 2019, primarily due to increases in the number of homes closed in our Denver and Portland markets. The region generated pre-tax income of $264.5 million in 2020 compared to $222.9 million in 2019. Home sales gross profit percentage decreased by 20 basis points in 2020 compared to 2019, primarily due to the average selling price of homes closed decreasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 40 basis points in 2020 compared to 2019, primarily due to the increase in homebuilding revenues.

Southwest Region — Homebuilding revenues increased 6% in fiscal 2020 compared to fiscal 2019, primarily due to increases in the number of homes closed in most of our markets. The region generated pre-tax income of $366.1 million in 2020 compared to $284.5 million in 2019. Home sales gross profit percentage increased by 60 basis points in 2020 compared to 2019, primarily due to the average cost of homes closed decreasing by more than the average selling price. The region also benefited from lower inventory and land option charges, which were $3.5 million in 2020 compared to $18.6 million in 2019. As a percentage of homebuilding revenues, SG&A expenses decreased by 60 basis points in 2020 compared to 2019, primarily due to the increase in homebuilding revenues.

South Central Region — Homebuilding revenues increased 17% in fiscal 2020 compared to fiscal 2019, primarily due to increases in the number of homes closed in our Houston, Dallas and San Antonio markets. The region generated pre-tax income of $714.9 million in 2020 compared to $527.6 million in 2019. Home sales gross profit percentage increased by 140 basis points in 2020 compared to 2019, primarily due to an increase in the average selling price of homes closed while the average cost of those homes decreased. As a percentage of homebuilding revenues, SG&A expenses decreased by 60 basis points in 2020 compared to 2019, primarily due to the increase in homebuilding revenues.

Southeast Region — Homebuilding revenues increased 21% in fiscal 2020 compared to fiscal 2019, primarily due to increases in the number of homes closed in all of our markets. The region generated pre-tax income of $709.5 million in 2020 compared to $477.8 million in 2019. Home sales gross profit percentage increased by 210 basis points in 2020 compared to 2019, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 50 basis points in 2020 compared to 2019, primarily due to the increase in homebuilding revenues.

East Region — Homebuilding revenues increased 11% in fiscal 2020 compared to fiscal 2019, primarily due to increases in the average selling price of homes closed in our Myrtle Beach, Knoxville and Charlotte markets. The region generated pre-tax income of $484.3 million in 2020 compared to $361.9 million in 2019. Home sales gross profit percentage increased by 210 basis points in 2020 compared to 2019, primarily due to an increase in the average selling price of homes closed while the average cost of those homes decreased. As a percentage of homebuilding revenues, SG&A expenses decreased by 30 basis points in 2020 compared to 2019, primarily due to the increase in homebuilding revenues.

North Region — Homebuilding revenues increased 30% in fiscal 2020 compared to fiscal 2019, primarily due to increases in the number of homes closed in our Delaware, Iowa, Indianapolis and New Jersey markets. The region generated pre-tax income of $126.2 million in 2020 compared to $36.0 million in 2019. Home sales gross profit percentage increased by 380 basis points in 2020 compared to 2019, primarily due to an increase in the average selling price of homes closed while the average cost of those homes decreased. As a percentage of homebuilding revenues, SG&A expenses decreased by 130 basis points in 2020 compared to 2019, primarily due to the increase 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. At the time of purchase, the undeveloped land is generally 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 September 30, 2021 and 2020 are summarized as follows:

	September 30, 2021				
	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)		
Northwest	$ 609.6	$ 685.4	$ —	$ 12.5	$ 1,307.5
Southwest	1,113.5	1,315.8	6.9	9.4	2,445.6
South Central	1,977.4	1,501.5	0.4	—	3,479.3
Southeast	2,002.4	1,160.1	16.1	—	3,178.6
East	1,124.6	792.3	1.3	1.4	1,919.6
North	901.4	460.4	5.3	1.8	1,368.9
Corporate and unallocated (1)	119.1	88.5	0.4	0.3	208.3
	$ 7,848.0	$ 6,004.0	$ 30.4	$ 25.4	$ 13,907.8

	September 30, 2020				
	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)		
Northwest	$ 573.3	$ 410.8	$ —	$ 0.5	$ 984.6
Southwest	973.7	1,063.5	7.3	18.8	2,063.3
South Central	1,434.6	1,141.7	0.3	1.0	2,577.6
Southeast	1,445.9	1,170.7	31.7	0.6	2,648.9
East	917.5	615.6	0.9	6.2	1,540.2
North	570.6	398.5	7.0	0.8	976.9
Corporate and unallocated (1)	121.9	100.6	0.6	0.4	223.5
	$ 6,037.5	$ 4,901.4	$ 47.8	$ 28.3	$ 11,015.0

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

Our land and lot position and homes in inventory at September 30, 2021 and 2020 are summarized as follows:

	September 30, 2021			
	Land/Lots Owned (1)	Lots Controlled Through Land and Lot Purchase Contracts (2)(3)	Total Land/Lots Owned and Controlled	Homes in Inventory (4)
Northwest	9,000	31,400	40,400	2,600
Southwest	22,800	34,300	57,100	5,500
South Central	42,800	79,000	121,800	14,000
Southeast	26,700	125,500	152,200	13,600
East	17,300	83,100	100,400	7,300
North	9,200	49,200	58,400	4,800
	127,800	402,500	530,300	47,800
	24 %	76 %	100 %	

	September 30, 2020			
	Land/Lots Owned (1)	Lots Controlled Through Land and Lot Purchase Contracts (2)(3)	Total Land/Lots Owned and Controlled	Homes in Inventory (4)
Northwest	5,000	21,300	26,300	2,500
Southwest	21,300	19,800	41,100	4,500
South Central	35,400	57,400	92,800	11,300
Southeast	29,100	84,700	113,800	10,200
East	12,200	54,800	67,000	6,400
North	9,600	26,300	35,900	3,100
	112,600	264,300	376,900	38,000
	30 %	70 %	100 %	

(1) Land/lots owned included approximately 30,800 and 33,800 owned lots that are fully developed and ready for home construction at September 30, 2021 and 2020, respectively. Land/lots owned also included land held for development representing 1,300 and 1,600 lots at September 30, 2021 and 2020, respectively.

(2) The total remaining purchase price of lots controlled through land and lot purchase contracts at September 30, 2021 and 2020 was $15.5 billion and $9.9 billion, respectively, secured by earnest money deposits of $1.1 billion and $653.4 million, respectively. The total remaining purchase price of lots controlled through land and lot purchase contracts at September 30, 2021 and 2020 included $1.6 billion and $1.0 billion, respectively, related to lot purchase contracts with Forestar, secured by $151.0 million and $98.2 million, respectively, of earnest money.

(3) Lots controlled at September 30, 2021 included approximately 39,200 lots owned or controlled by Forestar, 21,000 of which our homebuilding divisions have under contract to purchase and 18,200 of which our homebuilding divisions have a right of first offer to purchase. Of these, approximately 17,800 lots were in our Southeast region, 6,500 lots were in our East region, 5,400 lots were in our Southwest region, 4,600 lots were in our South Central region, 3,400 lots were in our North region and 1,500 lots were in our Northwest region. Lots controlled at September 30, 2020 included approximately 30,400 lots owned or controlled by Forestar, 14,000 of which our homebuilding divisions had under contract to purchase and 16,400 of which our homebuilding divisions had a right of first offer to purchase.

(4) Approximately 21,700 and 14,900 of our homes in inventory were unsold at September 30, 2021 and 2020, respectively. At September 30, 2021, approximately 900 of our unsold homes were completed, of which approximately 100 homes had been completed for more than six months. At September 30, 2020, approximately 1,900 of our unsold homes were completed, of which approximately 300 homes had been completed for more than six months. Homes in inventory exclude approximately 1,800 model homes at both September 30, 2021 and 2020.

Results of Operations — Forestar

In fiscal 2018, we acquired 75% of the outstanding shares of Forestar and at September 30, 2021, we owned 63% of its outstanding shares. Forestar is a publicly traded residential lot development company with operations in 56 markets across 23 states as of September 30, 2021. Forestar's segment results are presented on their historical cost basis, consistent with the manner in which management evaluates segment performance. (See Note B to the accompanying financial statements for additional Forestar segment information.)

Results of operations for the Forestar segment for the fiscal years ended September 30, 2021 and 2020 were as follows:

	Year Ended September 30,	
	2021	2020
	(In millions)	
Residential lot sales	$ 1,293.1	$ 880.3
Tract sales and other	32.7	51.5
Total revenues	1,325.8	931.8
Cost of sales	1,096.6	813.7
Selling, general and administrative expense	68.4	45.7
Gain on sale of assets	(2.5)	(0.1)
Loss on extinguishment of debt	18.1	—
Other (income) expense	(1.4)	(5.6)
Income before income taxes	$ 146.6	$ 78.1

Residential land and lot sales primarily consist of the sale of single-family lots to local, regional and national homebuilders. During fiscal 2021 and 2020, Forestar's land and lot sales, including the portion sold to D.R. Horton and the revenues generated from those sales, were as follows:

	Year Ended September 30,	
	2021	2020
	($ in millions)	
Total residential single-family lots sold	15,915	10,373
Residential single-family lots sold to D.R. Horton	14,839	10,164
Residential lot sales revenues from sales to D.R. Horton	$ 1,206.5	$ 861.8
Tract acres sold to D.R. Horton	85	143
Tract sales revenues from sales to D.R. Horton	$ 25.9	$ 25.6

SG&A expense for fiscal 2021 and 2020 included charges of $4.0 million and $5.0 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.

Loss on extinguishment of debt of $18.1 million in fiscal 2021 was due to Forestar's redemption of its $350 million principal amount of 8.0% senior notes due 2024 in May 2021.

At September 30, 2021, Forestar owned directly or controlled through land and lot purchase contracts 97,000 residential lots, of which approximately 5,300 are fully developed. Approximately 39,200 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 800 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 fiscal years ended September 30, 2021 and 2020.

	Year Ended September 30,		
	2021	2020	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	54,694	44,600	23 %
Number of homes closed by D.R. Horton	81,965	65,388	25 %
Percentage of D.R. Horton homes financed by DHI Mortgage	67 %	68 %	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	54,767	44,738	22 %
Total number of loans originated or brokered by DHI Mortgage	56,054	46,010	22 %
Captive business percentage	98 %	97 %	
Loans sold by DHI Mortgage to third parties	54,977	44,423	24 %

	Year Ended September 30,		
	2021	2020	% Change
	(In millions)		
Loan origination and other fees	$ 48.1	$ 39.5	22 %
Gains on sale of mortgage loans and mortgage servicing rights	619.1	437.2	42 %
Servicing income	3.6	—	— %
Total mortgage operations revenues	670.8	476.7	41 %
Title policy premiums	152.8	108.2	41 %
Total revenues	823.6	584.9	41 %
General and administrative expense	488.3	364.7	34 %
Other (income) expense	(29.3)	(25.0)	17 %
Financial services pre-tax income	$ 364.6	$ 245.2	49 %

Financial Services Operating Margin Analysis

	Percentages of Financial Services Revenues	
	Year Ended September 30,	
	2021	2020
General and administrative expense	59.3 %	62.4 %
Other (income) expense	(3.6)%	(4.3)%
Financial services pre-tax income	44.3 %	41.9 %

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 fiscal 2021, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased 23% from the prior year due to a 25% increase in the number of homes closed by our homebuilding operations.

Homes closed by our homebuilding operations constituted 98% and 97% of DHI Mortgage loan originations in fiscal 2021 and 2020, respectively. These percentages reflect DHI Mortgage's consistent focus on the captive business provided by our homebuilding operations.

The number of loans sold increased 24% in fiscal 2021 compared to the prior year. Virtually all of the mortgage loans held for sale on September 30, 2021 were eligible for sale to Fannie Mae, Freddie Mac or Ginnie Mae. During fiscal 2021, approximately 52% of our mortgage loans were sold directly to Fannie Mae or into securities backed by Ginnie Mae, and 41% were sold to two other major financial entities. Changes in market conditions could result in a greater concentration of our mortgage sales in future periods to fewer financial entities and directly to Fannie Mae or Ginnie Mae, and we may need to make other adjustments to our mortgage operations.

Financial Services Revenues and Expenses

Revenues from our mortgage operations increased 41% to $670.8 million in fiscal 2021 from $476.7 million in fiscal 2020, primarily due to a 22% increase in loan originations and higher net gains achieved on the sale of loan originations in the secondary market. Revenues from our title operations increased 41% to $152.8 million in fiscal 2021 from $108.2 million in fiscal 2020, primarily due to a 30% increase in escrow closings.

General and administrative (G&A) expense related to our financial services operations increased 34% to $488.3 million in fiscal 2021 from $364.7 million in the prior year. The increase was primarily due to an increase in employee related costs to support a higher volume of transactions. Our financial services operations employed 2,891 and 2,163 people at September 30, 2021 and 2020, respectively.

As a percentage of financial services revenues, G&A expense was 59.3% in fiscal 2021 compared to 62.4% in the prior year. Fluctuations in financial services G&A expense as a percentage of revenues can occur because some components of revenue 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.

As a result of the revenue increase from a higher volume of mortgage originations and escrow closings and better leverage of our G&A expenses, pre-tax income from our financial services operations increased 49% to $364.6 million in fiscal 2021 from $245.2 million in fiscal 2020.

Results of Operations — Rental

Our rental segment consists of multi-family and single-family rental operations. The multi-family rental operations develop, construct, lease, own and ultimately sell the residential properties. We primarily focus on constructing garden style multi-family rental communities, which typically accommodate 200 to 400 dwelling units, in high growth suburban markets. The single-family rental operations construct single-family rental homes with the intent to later market the community for a bulk sale of homes. Multi-family and single-family rental property sales are recognized as revenues, and rental income is recognized as other income. Results of operations for the rental segment for the fiscal years ended September 30, 2021 and 2020 were as follows:

	Year Ended September 30,	
	2021	2020
	(In millions)	
Revenues		
Single-family rental	$ 75.9	$ —
Multi-family rental	191.9	128.5
Total revenues	267.8	128.5
Cost of sales		
Single-family rental	42.4	—
Multi-family rental	119.1	69.0
Total cost of sales	161.5	69.0
Selling, general and administrative expense	44.6	27.8
Other (income) expense	(24.8)	(8.1)
Income before income taxes	$ 86.5	$ 39.8

During fiscal 2021, we sold three multi-family rental properties for $191.9 million (960 total units) compared to two properties (540 total units) in fiscal 2020 for $128.5 million. During fiscal 2021, we sold three single-family rental properties (260 total homes) for $75.9 million. There were no bulk sales of single-family rental properties in fiscal 2020.

At September 30, 2021, our rental property inventory of $840.9 million included $425.1 million of assets related to our multi-family rental operations and $415.8 million of assets related to our single-family rental operations. At September 30, 2021, we had 15 multi-family rental properties under active construction and one community that was substantially complete and in the lease-up phase. These 16 communities represent 4,690 multi-family units, including 4,340 units under active construction and 350 completed units. At September 30, 2021, our single-family rental properties (55 total communities) included 2,650 homes and finished lots, of which 865 homes were completed.

At September 30, 2020, our rental property inventory of $316.0 million included $229.9 million of assets related to our multi-family rental operations and $86.1 million of assets related to our single-family rental operations. At September 30, 2020, we had five multi-family rental properties under active construction and one community that was substantially complete and in the lease-up phase. These six communities represent 1,730 multi-family units, including 1,430 units under active construction and 300 completed units. At September 30, 2020, our single-family rental properties (10 total communities) included 740 homes and finished lots, of which 440 homes were completed.

Results of Operations — Other Businesses

In addition to our homebuilding, Forestar, financial services and rental operations, we engage in other business activities through our subsidiaries. We conduct insurance-related operations, own non-residential real estate including ranch land and improvements and own and operate energy related assets. The pre-tax income of all of our subsidiaries engaged in other business activities was $32.7 million in fiscal 2021 compared to $14.8 million in fiscal 2020.

Results of Operations — Consolidated

Income before Income Taxes

Pre-tax income was $5.4 billion in fiscal 2021 compared to $3.0 billion in fiscal 2020. The increase was primarily due to an increase in pre-tax income generated by our homebuilding operations as a result of higher revenues from increased home closings and an increase in home sales gross margin. In fiscal 2021, our homebuilding, financial services, Forestar and rental businesses generated pre-tax income of $4.8 billion, $364.6 million, $146.6 million and $86.5 million, respectively, compared to $2.7 billion, $245.2 million, $78.1 million and $39.8 million, respectively, in fiscal 2020.

Income Taxes

Our income tax expense was $1.2 billion and $602.5 million in fiscal 2021 and 2020, respectively, and our effective tax rate was 21.8% and 20.2% in those years. The effective tax rates in fiscal 2021 and 2020 include an expense for state income taxes, tax benefits related to stock-based compensation and a reduction of 2.2% and 3.1%, respectively, for tax benefits related to the federal energy efficient homes tax credit. Our effective tax rate for fiscal 2020 also includes a reduction of 0.4% for a tax benefit related to the release of a valuation allowance against our state deferred tax assets.

Our deferred tax assets, net of deferred tax liabilities, were $159.5 million at September 30, 2021 compared to $152.4 million at September 30, 2020. We have a valuation allowance of $4.2 million and $7.5 million at September 30, 2021 and 2020, respectively, related to state deferred tax assets for net operating loss (NOL) carryforwards that are more likely than not to expire before being realized. 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.

D.R. Horton has $10.3 million of tax benefits for state NOL carryforwards that expire at various times depending on the tax jurisdiction. Of the total amount, $2.9 million of the tax benefits expire over the next ten years and the remaining $7.4 million expire from fiscal years 2032 to 2041. Forestar has $1.4 million of tax benefits for state NOL carryforwards that expire at various times depending on the tax jurisdiction.

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.

Unrecognized tax benefits are the differences between tax positions taken or expected to be taken in a tax return and the benefits recognized in our financial statements. Our unrecognized tax benefits totaled $2.9 million and $8.9 million at September 30, 2021 and 2020, respectively.

D.R. Horton is subject to federal income tax and state income tax in multiple jurisdictions. The statute of limitations for D.R. Horton's major tax jurisdictions remains open for examination for fiscal years 2018 through 2021. A federal refund claim related to the retroactive extension of energy efficient homes tax credits for fiscal year 2018 is currently under audit by the Internal Revenue Service. D.R. Horton is under audit by various states, however, we are not aware of any significant findings by the state taxing authorities.

Forestar is subject to federal income tax and state income tax in multiple jurisdictions. The statute of limitations for Forestar's major tax jurisdictions remains open for examination for tax years 2016 through 2021. Forestar is not currently under audit for federal or state income taxes.

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 economic and market conditions.

During fiscal 2021 and currently, we have and continue to increase our investments in homebuilding inventories and single-family and multi-family rental properties to expand our operations and grow our revenues and profitability, as well as consider opportunistic strategic investments as they may arise. We are also returning capital to our shareholders through dividend payments and repurchases of our common stock. In the last two fiscal years, we have maintained higher homebuilding cash balances than in prior years to support the increased scale and level of activity in our business and to provide flexibility to adjust to changing conditions and opportunities.

At September 30, 2021, our ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 26.7% compared to 26.6% at September 30, 2020. Our ratio of homebuilding debt to total capital (homebuilding notes payable divided by stockholders' equity plus homebuilding notes payable) was 17.8% compared to 17.5% at September 30, 2020. Over the long term, we intend to maintain our ratio of homebuilding debt to total capital below 30%, and we expect it to remain significantly lower than 30% throughout fiscal 2022. 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.

As of September 30, 2021, we had outstanding notes payable with varying maturities totaling an aggregate principal amount of $5.4 billion, with $1.9 billion payable within 12 months. Future interest payments associated with the notes total $451.4 million, with $156.4 million payable within 12 months.

At September 30, 2021, we had outstanding letters of credit of $247.4 million and surety bonds of $2.3 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.

We regularly assess our projected capital requirements to fund growth in our business, repay debt obligations, pay dividends, repurchase our common stock and maintain sufficient cash levels to support our other 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 SEC in July 2021, 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. At September 30, 2021, $359.9 million remained available under Forestar's shelf registration statement, of which $65.6 million was reserved for sales under its at-the-market equity offering program. In October 2021, after the expiration of Forestar's existing registration statement and at-the-market equity offering program, a new shelf registration statement became effective, registering $750 million of equity securities. Forestar anticipates entering into a new at-the-market equity offering program under this new registration statement. 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 or obtain additional bank financing will provide sufficient liquidity to fund our near-term working capital needs and debt obligations.

Capital Resources - Homebuilding

Cash and Cash Equivalents — At September 30, 2021, cash and cash equivalents of our homebuilding segment totaled $3.0 billion.

Bank Credit Facilities — In April 2021, our senior unsecured homebuilding revolving credit facility was amended to increase its capacity to $2.19 billion with an uncommitted accordion feature that could increase the size of the facility to $3.0 billion, subject to certain conditions and availability of additional bank commitments. The maturity date of the facility was extended to April 20, 2026. The facility also provides for the issuance of letters of credit with a sublimit equal to 100% 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. At September 30, 2021, there were no borrowings outstanding and $187.1 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $2.0 billion.

Our $375 million 364-day senior unsecured homebuilding revolving credit facility was not renewed upon its maturity in May 2021.

Our homebuilding revolving credit facility imposes restrictions on our operations and activities, including requiring the maintenance of a maximum allowable leverage ratio and a borrowing base restriction if our leverage ratio 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 September 30, 2021, we were in compliance with all of the covenants, limitations and restrictions of our homebuilding revolving credit facility.

Public Unsecured Debt — We have $3.15 billion principal amount of homebuilding senior notes outstanding as of September 30, 2021 that mature from September 2022 through October 2027. In October 2020, we issued $500 million principal amount of 1.4% senior notes due October 15, 2027, with interest payable semi-annually. The annual effective interest rate of these notes after giving effect to the amortization of the discount and financing costs is 1.6%. In December 2020, we repaid $400 million principal amount of our 2.55% senior notes at maturity. In August 2021, we issued $600 million principal amount of 1.3% senior notes due October 15, 2026, with interest payable semi-annually. The annual effective interest rate of these notes after giving effect to the amortization of the discount and financing costs is 1.5%. The indentures governing our senior notes impose restrictions on the creation of secured debt and liens. At September 30, 2021, we were in compliance with all of the limitations and restrictions associated with our public debt obligations.

Debt and Stock Repurchase Authorizations — In July 2019, our Board of Directors authorized the repurchase of up to $500 million of debt securities. In April 2021, our Board of Directors authorized the repurchase of up to $1.0 billion of our common stock, replacing the prior authorization. During fiscal 2021, we repurchased 10.4 million shares of our common stock for $874.0 million. At September 30, 2021, the full amount of the debt repurchase authorization was remaining, and $546.2 million of the stock repurchase authorization was remaining. These authorizations have no expiration date.

Capital Resources - Forestar

The achievement of Forestar's 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. At September 30, 2021, Forestar's ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 41.0% compared to 42.4% at September 30, 2020. Forestar's ratio of net debt to total capital (notes payable net of cash divided by stockholders' equity plus notes payable net of cash) was 35.2% compared to 22.1% at September 30, 2020.

Cash and Cash Equivalents — At September 30, 2021, Forestar had cash and cash equivalents of $153.6 million.

Bank Credit Facility — In April 2021, Forestar's senior unsecured revolving credit facility was amended to increase its capacity to $410 million with an uncommitted accordion feature that could increase the size of the facility to $600 million, subject to certain conditions and availability of additional bank commitments. The maturity date of the facility was extended to April 16, 2025. 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 calculation based on Forestar's book value of its real estate assets and unrestricted cash. Letters of credit issued under the facility reduce the available borrowing capacity. Borrowings and repayments under the facility totaled $58.0 million each during fiscal 2021. At September 30, 2021, there were no borrowings outstanding and $60.3 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $349.7 million.

The Forestar 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.

Unsecured Debt — As of September 30, 2021, Forestar had $700 million principal amount of senior notes issued pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended, which represent unsecured obligations of Forestar. These notes include $400 million principal amount of 3.85% senior notes issued in April 2021 that mature May 15, 2026 with interest payable semiannually. The annual effective interest rate of the notes after giving effect to the amortization of financing costs is 4.1%. The net proceeds from this issuance were primarily used to redeem Forestar's $350 million principal amount of 8.0% senior notes due 2024 in May 2021. The redemption price of $365.6 million included a call premium of $14.0 million and accrued and unpaid interest of $1.6 million. Forestar recognized an $18.1 million loss on extinguishment of debt upon redemption of the notes. Forestar also has $300 million principal amount of 5.0% senior notes that mature March 1, 2028. The annual effective interest rate of the notes after giving effect to the amortization of financing costs is 5.2%. Forestar's senior notes may be redeemed prior to maturity, subject to certain limitations and premiums defined in the indenture agreements.

Forestar's revolving credit facility and its senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. At September 30, 2021, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility and senior note obligations.

Debt Repurchase Authorization — Effective April 30, 2020, Forestar's Board of Directors authorized the repurchase of up to $30 million of Forestar's debt securities. All of the $30 million authorization was remaining at September 30, 2021, and the authorization has no expiration date.

Issuance of Common Stock — During fiscal 2021, Forestar issued 1.4 million shares of common stock under its at-the-market equity offering program for proceeds of $33.4 million, net of commissions and other issuance costs. At September 30, 2021, $359.9 million remained available for issuance under Forestar's shelf registration statement, of which $65.6 million was reserved for sales under its at-the-market equity offering program. In October 2021, after the expiration of Forestar's existing registration statement and at-the-market equity offering program, a new shelf registration statement became effective, registering $750 million of equity securities. Forestar anticipates entering into a new at-the-market equity offering program under this new registration statement.

Capital Resources - Financial Services

Cash and Cash Equivalents — At September 30, 2021, cash and cash equivalents of our financial services operations totaled $79.0 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. The total capacity of the facility is $1.4 billion; however, the capacity automatically increases during certain higher volume periods and can be further increased through additional commitments. The total capacity of the facility at September 30, 2021 was $1.8 billion, and its maturity date is February 18, 2022.

As of September 30, 2021, $1.9 billion of mortgage loans held for sale with a collateral value of $1.9 billion were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling $362.4 million, DHI Mortgage had an obligation of $1.5 billion outstanding under the mortgage repurchase facility at September 30, 2021 at a 2.1% 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 leverage ratio and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At September 30, 2021, 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.

Capital Resources - Rental

Cash and Cash Equivalents — At September 30, 2021, cash and cash equivalents of our rental operations segment totaled $16.8 million. During fiscal 2021, we substantially increased the investment in our rental operations. The inventory in our rental segment totaled $840.9 million at September 30, 2021 compared to $316.0 million at September 30, 2020. To date, we have funded our rental operations with capital from our homebuilding operations. Our rental operations had no debt outstanding at September 30, 2021; however, we are currently exploring debt financing with our banks to fund a portion of the expected future growth. Over the longer term, as our rental operations continue to grow, we plan to evaluate additional capital sources to fund future growth opportunities.

Operating Cash Flow Activities

In fiscal 2021, net cash provided by operating activities was $534.4 million compared to $1.4 billion in fiscal 2020. Cash provided by operating activities in the current year consisted of $1.2 billion of cash provided by our homebuilding segment, which was partially offset by cash used in our Forestar, financial services and rental segments. The most significant source of cash provided by operating activities in both periods was net income.

Cash used to increase construction in progress and finished home inventory was $1.7 billion in fiscal 2021 compared to $739.1 million in fiscal 2020. In both years, the expenditures were made to increase our homes in inventory in response to the strength of homebuyer demand. Cash used to increase residential land and lots was $1.7 billion in fiscal 2021 compared to $324.4 million in fiscal 2020. Of these amounts, $585.6 million and $281.5 million, respectively, related to Forestar.

During the six months ended September 30, 2021, we increased our single-family and multi-family rental properties by $303.6 million, which is reflected as cash used in operating activities. Prior to the change in presentation of rental operations, as discussed in Note A to the accompanying financial statements, cash activities related to rental properties were presented as investing activities. During the six month period ended March 31, 2021 and in fiscal 2020, expenditures related to rental properties were $173.9 million and $190.3 million, respectively, and are reflected as cash used in investing activities.

Investing Cash Flow Activities

In fiscal 2021, net cash used in investing activities was $252.2 million compared to $166.1 million in fiscal 2020. In fiscal 2021, uses of cash included expenditures related to our rental operations totaling $173.9 million, purchases of property and equipment totaling $93.5 million and the acquisition of the homebuilding operations of Braselton Homes for $23.0 million, partially offset by proceeds from the sale of a single-family rental community for $31.8 million in the first quarter of fiscal 2021. In fiscal 2020, uses of cash included expenditures related to our rental operations totaling $190.3 million and purchases of property and equipment totaling $96.5 million, partially offset by proceeds from the sale of assets, primarily consisting of $128.5 million related to the sale of two multi-family rental properties.

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 our operations may be funded with the issuance of senior unsecured debt securities or equity securities through the capital markets.

In fiscal 2021, net cash used in financing activities was $85.1 million, consisting primarily of repayment of $400 million principal amount of our 2.55% homebuilding senior notes at maturity, Forestar's early redemption of its $350 million principal amount of 8.0% senior notes, cash used to repurchase shares of our common stock of $848.4 million and payment of cash dividends totaling $289.3 million. These uses of cash were partially offset by note proceeds from our issuance of $500 million principal amount of 1.4% homebuilding senior notes and $600 million principal amount of 1.3% homebuilding senior notes, Forestar's issuance of $400 million principal amount of 3.85% senior notes and net advances of $362.0 million on our mortgage repurchase facility.

In fiscal 2020, net cash provided by financing activities was $270.6 million, consisting primarily of note proceeds of $1.1 billion from draws on our homebuilding revolving credit facility, our issuance of $500 million principal amount of 2.5% homebuilding senior notes, our issuance of $500 million principal amount of 2.6% homebuilding senior notes, Forestar's issuance of $300 million principal amount of 5.0% senior notes and net advances of $243.7 million on our mortgage repurchase facility. Note proceeds were partially offset by repayment of amounts drawn on our homebuilding revolving credit facility totaling $1.1 billion, repayment of $500 million principal amount of our 4.0% homebuilding senior notes at maturity, Forestar's repayment of $118.9 million principal amount of its 3.75% convertible senior notes at maturity, cash used to repurchase shares of our common stock of $360.4 million and payment of cash dividends totaling $256.0 million.

Our Board of Directors approved and paid quarterly cash dividends of $0.20 per common share in fiscal 2021 and $0.175 per common share in fiscal 2020. In October 2021, our Board of Directors approved a quarterly cash dividend of $0.225 per common share, payable on December 15, 2021, to stockholders of record on December 6, 2021. 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.

Supplemental Guarantor Financial Information

As of September 30, 2021, D.R. Horton, Inc. had $3.15 billion principal amount of homebuilding senior notes outstanding due through October 2027 and no amounts outstanding on its homebuilding revolving credit facility.

All of the homebuilding senior notes and the homebuilding revolving credit facility are fully and unconditionally guaranteed, on a joint and several basis, by certain subsidiaries of D.R. Horton, Inc. (Guarantors or Guarantor Subsidiaries). Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by D.R. Horton, Inc. Our subsidiaries associated with the Forestar lot development operations, financial services operations, multi-family residential construction and certain other subsidiaries do not guarantee the homebuilding senior notes or the homebuilding revolving credit facility (collectively, Non-Guarantor Subsidiaries). The guarantees are senior unsecured obligations of each Guarantor and rank equal with all existing and future senior debt of such Guarantor and senior to all subordinated debt of such Guarantor. The guarantees are effectively subordinated to any secured debt of such Guarantor to the extent of the value of the assets securing such debt. The guarantees will be structurally subordinated to indebtedness and other liabilities of Non-Guarantor Subsidiaries of the Guarantors.

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 ours; (2) the sale or other disposition of all or substantially all of its assets (other than to us or another Guarantor); (3) its merger or consolidation with an entity other than us or another Guarantor; or (4) its ceasing to guarantee any of our publicly traded debt securities and ceasing to guarantee any of our obligations under our homebuilding revolving credit facility.

The following tables present summarized financial information for D.R. Horton, Inc. and the Guarantor Subsidiaries on a combined basis after intercompany transactions and balances have been eliminated among D.R. Horton, Inc. and the Guarantor Subsidiaries, as well as their investment in, and equity in earnings from the Non-Guarantor Subsidiaries.

D.R. Horton, Inc. and Guarantor Subsidiaries

Summarized Balance Sheet Data	**September 30, 2021**
	(In millions)
Assets	
Cash	$ 2,893.3
Inventories	14,203.2
Amount due from Non-Guarantor Subsidiaries	592.4
Total assets	19,724.9
Liabilities & Stockholders' Equity	
Notes payable	$ 3,214.0
Total liabilities	6,157.4
Stockholders' equity	13,567.5

Summarized Statement of Operations Data	**Year Ended September 30, 2021**
	(In millions)
Revenues	$ 26,566.8
Cost of sales	19,824.1
Selling, general and administrative expense	1,889.4
Income before income taxes	4,825.6
Net income	3,786.5

A court could void or subordinate any Guarantor's guarantee under the fraudulent conveyance laws if existing or future creditors of any such Guarantor were successful in establishing that: (i) such guarantee was incurred with fraudulent intent; or (ii) such Guarantor did not receive fair consideration or reasonably equivalent value for issuing its guarantee and was insolvent at the time of the guarantee, was rendered insolvent by reason of the guarantee, was engaged in a business or transaction for which its assets constituted unreasonably small capital to carry on its business, or intended to incur, or believed that it would incur, debt beyond its ability to pay such debt as it matured.

The measures of insolvency for purposes of determining whether a fraudulent conveyance occurred would vary depending upon the laws of the relevant jurisdiction and upon the valuation assumptions and methodology applied by the court. Generally, however, a company would be considered insolvent for purposes of the foregoing if the sum of the company's debts, including contingent, unliquidated and unmatured liabilities, is greater than all of such company's property at a fair valuation, or if the present fair saleable value of the company's assets is less than the amount that will be required to pay the probable liability on its existing debts as they become absolute and matured.

The indentures governing our homebuilding senior notes contain a "savings clause," which limits the liability of each Guarantor on its guarantee to the maximum amount that such Guarantor can incur without risk that its guarantee will be subject to avoidance as a fraudulent transfer. This provision may not be effective to protect such guarantees from fraudulent transfer challenges or, if it does, it may reduce such Guarantor's obligation such that the remaining amount due and collectible under the guarantees would not suffice, if necessary, to pay the notes in full when due.

On the basis of historical financial information, operating history and other factors, we believe that each of the Guarantors, after giving effect to the issuance of the guarantees when such guarantees were issued, was not insolvent, did not have unreasonably small capital for the business in which it engaged and did not and has not incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

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 pre-tax income in the third and fourth quarters of our fiscal year. The seasonal nature of our business can also cause significant variations in the working capital requirements for our homebuilding, lot development, financial services and rental 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, 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, lot development and rental housing industries and changes in economic, real estate or 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, lot and rental inventory;
- our ability to effect our growth strategies, acquisitions or investments successfully;
- the impact of an inflationary, deflationary or higher interest rate environment;
- supply shortages and other risks of acquiring land, building materials and skilled labor;
- the effects of public health issues such as a major epidemic or pandemic, including the impact of COVID-19 on the economy and our businesses;
- the effects of weather conditions and natural disasters on our business and financial results;
- home warranty and construction defect claims;
- the effects of health and safety incidents;
- 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;
- competitive conditions within the industries in which we operate;
- our ability to manage and service our debt and comply with related debt covenants, restrictions and limitations;
- the effects of negative publicity;
- the effects of the loss of key personnel;
- actions by activist stockholders; and
- information technology failures, data security breaches and our ability to satisfy privacy and data protection laws and regulations.

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 Item 1A, "Risk Factors" under Part I of this annual report on Form 10-K.

Critical Accounting Policies and Estimates

General — A comprehensive enumeration of the significant accounting policies of D.R. Horton, Inc. and subsidiaries is presented in Note A to the accompanying financial statements as of September 30, 2021 and 2020, and for the years ended September 30, 2021, 2020 and 2019. Each of our accounting policies has been chosen based upon current authoritative literature that collectively comprises U.S. Generally Accepted Accounting Principles (GAAP). In instances where alternative methods of accounting are permissible under GAAP, we have chosen the method that most appropriately reflects the nature of our business, the results of our operations and our financial condition, and have consistently applied those methods over each of the periods presented in the financial statements. The Audit Committee of our Board of Directors has reviewed and approved the accounting policies selected.

We believe the following critical accounting policies describe the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition — We generally recognize homebuilding revenue and related profit at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. Our 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 our benefit at title companies are included in homebuilding cash and cash equivalents in the consolidated balance sheets.

When we execute sales contracts with our homebuyers, or when we require advance payment from homebuyers for custom changes, upgrades or options related to their homes, we record the cash deposits received as liabilities until the homes are closed or the contracts are cancelled. We either retain or refund to the homebuyer deposits on cancelled sales contracts, depending upon the applicable provisions of the contract or other circumstances.

Forestar's land and lot sales 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 a third-party buyer. Forestar's revenues from land and lot sales to D.R. Horton are eliminated in the consolidated financial statements.

We rarely purchase unimproved land for resale, but periodically may elect to sell parcels of land that no longer fit into our strategic operating plans. Revenue from land sales is typically recognized on the closing date, which is generally when performance obligations are satisfied.

We recognize financial services revenues associated with our title operations as closing services are rendered and title insurance policies are issued, both of which generally occur simultaneously as each home is closed. Revenues associated with our mortgage operations primarily include net gains on the sale of mortgage loans and servicing rights. We typically elect the fair value option for our mortgage loan originations whereby mortgage loans held for sale are recorded at fair value based on either sale commitments or current market quotes and loan values are adjusted through revenues for subsequent changes in fair value until the loans are sold. Expected gains and losses from the sale of servicing rights are included in the measurement of all written loan commitments that are accounted for at fair value through revenues at the time of commitment. We sell substantially all of the mortgages we originate 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.

Mortgage loans are sold with limited recourse provisions, which can result in repurchases of loans previously sold to investors or payments to reimburse investors for loan losses. Based on historical experience, analysis of the volume of mortgages we originated, discussions with our mortgage purchasers and current housing and credit market conditions, we estimate and record a loss reserve for mortgage loans held in portfolio and mortgage loans held for sale, as well as known and projected mortgage loan repurchase requests.

Inventories and Cost of Sales — Inventory includes the costs of direct land acquisition, land development and construction, capitalized interest, real estate taxes and direct overhead costs incurred during development and construction. Costs that we incur after projects or homes are substantially complete, such as utilities, maintenance, and cleaning, are charged to SG&A expense as incurred. All indirect overhead costs, such as compensation of sales personnel, division and region management, and the costs of advertising and builder's risk insurance are charged to SG&A expense as incurred.

Land and development costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to construction in progress when home construction begins. Home construction costs are specifically identified and recorded to individual homes. Cost of sales for homes closed includes the specific construction costs of each home and all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot based upon the total number of homes expected to be closed in each community. Cost of sales for lots sold includes all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot in the community. Any changes to the estimated total development costs subsequent to the initial home or lot closings in a community are generally allocated on a pro-rata basis to the remaining homes or lots in the community associated with the relevant development activity.

When a home is closed, we generally have not paid all incurred costs necessary to complete the home. We record a liability and a corresponding charge to cost of sales for the amount estimated to ultimately be paid related to completed homes that have been closed. We compare our home construction budgets to actual recorded costs to determine the additional costs remaining to be paid on each closed home. We monitor the accrual by comparing actual costs incurred on closed homes in subsequent months to the amounts previously accrued. Although actual costs to be paid in the future on previously closed homes could differ from our current accruals, such differences have not been significant.

At the end of each quarter, we review the performance and outlook for all of our communities and land inventories for indicators of potential impairment. We generally review our inventory for impairment indicators at the community level, and the inventory within each community is categorized as land held for development, residential land and lots developed and under development, land held for sale, rental properties and construction in progress and finished homes, based on the stage of production or plans for future development or sale. A particular community often includes inventory in more than one category. In certain situations, inventory may be analyzed separately for impairment purposes based on its product type or future plans. In reviewing each of our communities, we determine if impairment indicators exist on inventory held and used by analyzing a variety of factors including, but not limited to, the following:

- gross margins on homes closed in recent months;
- projected gross margins on homes sold but not closed;
- projected gross margins based on community budgets;
- projected gross margins of rental property sales;
- trends in gross margins, average selling prices or cost of sales;
- sales absorption rates; and
- performance of other communities in nearby locations.

If indicators of impairment are present for a community, we perform an impairment evaluation of the community, which includes an analysis to determine if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. If so, impairment charges are recorded to cost of sales if the fair value of such assets is less than their carrying amounts. These estimates of cash flows are significantly impacted by community specific factors including estimates of the amounts and timing of future revenues and estimates of the amount of land development, materials and labor costs which, in turn, may be impacted by the following local market conditions:

- supply and availability of new and existing homes;
- location and desirability of our communities;
- variety of product types offered in the area;
- pricing and use of incentives by us and our competitors;
- alternative uses for our land or communities such as the sale of land, finished lots or home sites to third parties;
- amount of land and lots we own or control in a particular market or sub-market; and
- local economic and demographic trends.

For those assets deemed to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Our determination of fair value is primarily based on discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. When an impairment charge for a community is determined, the charge is then allocated to each lot in the community in the same manner as land and development costs are allocated to each lot. Impairment charges are also recorded on finished homes in substantially completed communities and completed rental properties when events or circumstances indicate that the carrying values are greater than the fair values less estimated costs to sell these homes.

We rarely purchase land for resale. However, when we own land or communities under development that do not fit into our development and construction plans, and we determine that we will sell the asset, the project is accounted for as land held for sale if certain criteria are met. We record land held for sale at the lesser of its carrying value or fair value less estimated costs to sell. In performing the impairment evaluation for land held for sale, we consider several factors including, but not limited to, recent offers received to purchase the property, prices for land in recent comparable sales transactions and market analysis studies, which include the estimated price a willing buyer would pay for the land. If the estimated fair value less costs to sell an asset is less than the current carrying value, the asset is written down to its estimated fair value less costs to sell.

The key assumptions relating to inventory valuations are impacted by local market and economic conditions, and are inherently uncertain. Although our quarterly assessments reflect management's best estimates, due to uncertainties in the estimation process, actual results could differ from such estimates.

Warranty Claims — We typically provide our 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. Since we subcontract our construction work to subcontractors who typically provide us with an indemnity and a certificate of insurance prior to receiving payments for their work, claims relating to workmanship and materials are generally the primary responsibility of the subcontractors. Warranty liabilities have been established by charging cost of sales for each home delivered. The amounts charged are based on management's estimate of expected warranty-related costs under all unexpired warranty obligation periods. Our warranty liability is based upon historical warranty cost experience in each market in which we operate and is adjusted to reflect qualitative risks associated with the types of homes we build and the geographic areas in which we build them. Actual future warranty costs could differ from our currently estimated amounts. A 10% change in the historical warranty rates used to estimate our warranty accrual would not result in a material change in our accrual. For additional information regarding our warranty liability, see Note L, "Commitments and Contingencies," to our consolidated financial statements included elsewhere in this report.

Legal Claims and Insurance — We are named as a defendant in various claims, complaints and other legal actions in the ordinary course of business. At any point in time, we are managing several hundred individual claims related to construction defect matters, personal injury claims, employment matters, land development issues, contract disputes and other matters. We have 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. Approximately 99% of these reserves related to construction defect matters at both September 30, 2021 and 2020.

Our reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. At September 30, 2021 and 2020, we had reserves for approximately 380 and 260 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During fiscal 2021, we were notified of approximately 235 new construction defect claims and resolved 115 construction defect claims for a total cost of $16.5 million. We have closed a significant number of homes during recent years, and we may be subject to future construction defect claims on these homes. Although regulations vary from state to state, construction defect issues can generally be reported for up to ten years after the home has closed in many states in which we operate. Historical data and trends regarding the frequency of claims incurred and the costs to resolve claims relative to the types of products and markets where we operate are used to estimate the construction defect liabilities for both existing and anticipated future claims. These estimates are subject to ongoing revision as the circumstances of individual pending claims and historical data and trends change. Adjustments to estimated reserves are recorded in the accounting period in which the change in estimate occurs.

Historical trends in construction defect claims have been inconsistent, and we believe they may continue to fluctuate. We also believe that fluctuations in housing market conditions can affect the frequency and cost of construction defect claims. If the ultimate resolution of construction defect claims resulting from our home closings in prior years varies from current expectations, it could significantly change our estimates regarding the frequency and timing of claims incurred and the costs to resolve existing and anticipated future claims, which would impact the construction defect reserves in the future. If the frequency of claims incurred or costs of existing and future legal claims significantly exceed our current estimates, they will have a significant negative impact on our future earnings and liquidity.

We estimate and record receivables under the applicable insurance policies related to our 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. However, because the self-insured retentions under these policies are significant, we anticipate we will largely be self-insured. Additionally, we may have the ability to recover a portion of our losses from our subcontractors and their insurance carriers when we have been named as an additional insured on their insurance policies.

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 our 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. A 10% increase in the claim frequency and the average cost per claim used to estimate the reserves would result in an increase of approximately $101.7 million in our reserves and a $50.9 million increase in our receivable, resulting in additional expense of $50.8 million. A 10% decrease in the claim frequency and the average cost per claim would result in a decrease of approximately $91.8 million in our reserves and a $43.8 million decrease in our receivable, resulting in a reduction in expense of $48.0 million. For additional information regarding our legal claims reserves, see Note L, “Commitments and Contingencies,” to our consolidated financial statements included elsewhere in this report.

Pending Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board (FASB) issued ASU 2019-12 related to simplifying the accounting for income taxes. The guidance is effective for us beginning October 1, 2021 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform,” which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01, “Reference Rate Reform - Scope,” which clarified the scope and application of the original guidance. We will adopt these standards when LIBOR is discontinued and do not expect them to have a material impact on our consolidated financial statements or related disclosures.

In October 2021, the FASB issued ASU 2021-08, which requires application of ASC 606, “Revenue from Contracts with Customers,” to recognize and measure contract assets and liabilities from contracts with customers acquired in a business combination. ASU 2021-08 creates an exception to the general recognition and measurement principle in ASC 805 and will result in recognition of contract assets and contract liabilities consistent with those recorded by the acquiree immediately before the acquisition date. The guidance is effective for us beginning October 1, 2023 and interim periods therein, with early adoption permitted. We are currently evaluating the impact of this guidance on our consolidated financial position, results of operations and cash flows.

ITEM 7A. 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 MBS, 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 years ended September 30, 2021 and 2020 was not significant, is recognized in current earnings. At September 30, 2021, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of $2.7 billion. Uncommitted IRLCs totaled a notional amount of approximately $1.4 billion and uncommitted mortgage loans held for sale totaled a notional amount of approximately $1.3 billion at September 30, 2021.

We also use hedging instruments as part of a program to offer below market interest rate financing to our homebuyers. At September 30, 2021 and 2020, we had MBS totaling $834.6 million and $1.1 billion, respectively, that did not yet have IRLCs or closed loans created or assigned and recorded an asset of $1.1 million at September 30, 2021 and a liability of $5.3 million at September 30, 2020 for the fair value of such MBS position.

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 September 30, 2021. 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 September 30, 2021.

	Fiscal Year Ending September 30,							Fair Value at September 30, 2021
	2022	2023	2024	2025	2026	Thereafter	Total	
	($ in millions)							
Debt:								
Fixed rate	$ 429.5	$700.3	$ 13.7	$500.4	$900.4	$ 1,400.4	$3,944.7	$ 4,045.6
Average interest rate	4.2 %	5.4 %	3.7 %	2.7 %	3.4 %	2.3 %	3.4 %	
Variable rate	$1,494.6	$ —	$ —	$ —	$ —	$ —	$1,494.6	$ 1,494.6
Average interest rate	2.1 %	— %	— %	— %	— %	— %	2.1 %	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of D.R. Horton, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of D.R. Horton, Inc. and subsidiaries (the Company) as of September 30, 2021 and 2020, and the related consolidated statements of operations, total equity, and cash flows for each of the three years in the period ended September 30, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2021 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 18, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Estimation of reserves for construction defect matters

Description of the Matter

At September 30, 2021, the Company's reserve for legal claims related to construction defect matters was $575.1 million. As explained in Note L to the consolidated financial statements, the Company has established reserves for construction defect matters based on the estimated costs of pending legal claims and the estimated costs of anticipated future legal claims related to previously closed homes, and this liability is included within the accrued expenses and other liabilities account in the consolidated balance sheet. This reserve estimate is subject to a high degree of variability and ongoing revision as the circumstances of individual pending claims and historical data and trends change. Management applies judgment in determining the key assumptions used in calculating the reserve for construction defect matters.

Auditing the reserve for construction defect matters is complex and especially challenging due to the judgmental nature of the key assumptions related to projections of the frequency of future claims and the costs to resolve claims in consideration of historical claims information. These assumptions are developed by management, are subjective in nature and have a significant effect on the determined amount of the reserve for construction defect matters. Further, the estimated reserve balance is sensitive to changes in these key assumptions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process for estimating the reserve for construction defect matters. We tested the Company's controls that address the risk of material misstatement related to the measurement and valuation of the reserve for construction defect matters, including the key assumptions related to the projections of the frequency and costs of future claims, and the completeness and accuracy of data used in the model developed by management.

To test the reserve for construction defect matters, our audit procedures included, among others, evaluating the methodology used, the key assumptions and the underlying data used by the Company in developing the reserve estimate. As management utilizes historical trends of frequency of claims incurred and the average cost to resolve claims relative to the types of products and markets where the Company operates in measuring the reserve estimate, we evaluated management's methodology for determining the frequency and cost of future claims assumptions by comparing these key assumptions to trends observed in historical Company claims data and other available information. In addition, we involved an actuarial specialist to assist with our procedures. Our specialist developed a range of values for the reserve estimate based on independently selected assumptions, which we compared to management's recorded amount to evaluate management's estimate. We also performed sensitivity analyses to determine the effect of changes in assumptions, where appropriate. We also tested completeness and accuracy of underlying claims data used in management's estimation calculations and performed recalculations to evaluate the accuracy of the model used by management to determine the estimate.

Ernst + Young LLP

We have served as the Company's auditor since 2018.

Dallas, Texas
November 18, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of D.R. Horton, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited D.R Horton, Inc. and subsidiaries' internal control over financial reporting as of September 30, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, D.R. Horton, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of September 30, 2021 and 2020, the related consolidated statements of operations, total equity, and cash flows for each of the three years in the period ended September 30, 2021, and the related notes and our report dated November 18, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Ernst + Young LLP

Dallas, Texas
November 18, 2021

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

	September 30, 2021	September 30, 2020
	(In millions)	
ASSETS		
Cash and cash equivalents	$ 3,210.4	$ 3,018.5
Restricted cash	26.8	21.6
Total cash, cash equivalents and restricted cash	3,237.2	3,040.1
Inventories:		
Construction in progress and finished homes	7,739.2	5,984.1
Residential land and lots — developed and under development	7,781.8	6,171.8
Land held for development	110.9	53.2
Land held for sale	25.4	28.3
Rental properties	821.8	—
Total inventory	16,479.1	12,237.4
Mortgage loans held for sale	2,027.3	1,529.0
Deferred income taxes, net of valuation allowance of $4.2 million and $7.5 million at September 30, 2021 and 2020, respectively	155.3	144.9
Property and equipment, net	392.9	683.7
Other assets	1,560.6	1,113.7
Goodwill	163.5	163.5
Total assets	$ 24,015.9	$ 18,912.3
LIABILITIES		
Accounts payable	$ 1,177.0	$ 900.5
Accrued expenses and other liabilities	2,210.3	1,607.0
Notes payable	5,412.4	4,283.3
Total liabilities	8,799.7	6,790.8
Commitments and contingencies (Note L)		
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, 397,190,100 shares issued and 356,015,843 shares outstanding at September 30, 2021 and 394,741,349 shares issued and 363,999,982 shares outstanding at September 30, 2020	4.0	3.9
Additional paid-in capital	3,274.8	3,240.9
Retained earnings	13,644.3	9,757.8
Treasury stock, 41,174,257 shares and 30,741,367 shares at September 30, 2021 and 2020, respectively, at cost	(2,036.6)	(1,162.6)
Stockholders' equity	14,886.5	11,840.0
Noncontrolling interests	329.7	281.5
Total equity	15,216.2	12,121.5
Total liabilities and equity	$ 24,015.9	$ 18,912.3

See accompanying notes to consolidated financial statements.

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

	Year Ended September 30,		
	2021	2020	2019
	(In millions, except per share data)		
Revenues	$ 27,774.2	$ 20,311.1	$ 17,592.9
Cost of sales	19,899.2	15,373.2	13,720.9
Selling, general and administrative expense	2,556.2	2,047.8	1,832.5
Gain on sale of assets	(14.0)	(59.5)	(53.9)
Loss on extinguishment of debt	18.1	—	—
Other (income) expense	(41.6)	(33.4)	(31.9)
Income before income taxes	5,356.3	2,983.0	2,125.3
Income tax expense	1,165.1	602.5	506.7
Net income	4,191.2	2,380.5	1,618.6
Net income attributable to noncontrolling interests	15.4	6.8	0.1
Net income attributable to D.R. Horton, Inc.	$ 4,175.8	$ 2,373.7	$ 1,618.5
Basic net income per common share attributable to D.R. Horton, Inc.	$ 11.56	$ 6.49	$ 4.34
Weighted average number of common shares	361.1	365.5	372.6
Diluted net income per common share attributable to D.R. Horton, Inc.	$ 11.41	$ 6.41	$ 4.29
Adjusted weighted average number of common shares	365.8	370.2	377.4

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)					
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	—	—	27.1	—	—	27.1
Net income	—	—	1,618.5	—	0.1	1,618.6
Exercise of stock options (2,634,802 shares)	—	38.1	—	—	—	38.1
Stock issued under employee benefit plans (1,417,776 shares)	—	4.6	—	—	—	4.6
Cash paid for shares withheld for taxes	—	(19.7)	—	—	—	(19.7)
Stock-based compensation expense	—	73.2	—	—	—	73.2
Cash dividends declared ($0.60 per share)	—	—	(223.4)	—	—	(223.4)
Repurchases of common stock (11,882,759 shares)	—	—	—	(479.8)	—	(479.8)
Distributions to noncontrolling interests	—	—	—	—	(3.9)	(3.9)
Change of ownership interest in Forestar	—	(2.1)	—	—	103.5	101.4
Balances at September 30, 2019 (368,431,454 shares)	$ 3.9	$ 3,179.1	$ 7,640.1	$ (802.2)	$ 274.2	$ 10,295.1
Net income	—	—	2,373.7	—	6.8	2,380.5
Exercise of stock options (959,742 shares)	—	17.8	—	—	—	17.8
Stock issued under employee benefit plans (1,608,786 shares)	—	5.6	—	—	—	5.6
Cash paid for shares withheld for taxes	—	(38.2)	—	—	—	(38.2)
Stock-based compensation expense	—	77.8	—	—	—	77.8
Cash dividends declared ($0.70 per share)	—	—	(256.0)	—	—	(256.0)
Repurchases of common stock (7,000,000 shares)	—	—	—	(360.4)	—	(360.4)
Distributions to noncontrolling interests	—	—	—	—	(0.7)	(0.7)
Change of ownership interest in Forestar	—	(1.2)	—	—	1.2	—
Balances at September 30, 2020 (363,999,982 shares)	$ 3.9	$ 3,240.9	$ 9,757.8	$ (1,162.6)	$ 281.5	$ 12,121.5
Net income	—	—	4,175.8	—	15.4	4,191.2
Exercise of stock options (757,487 shares)	—	6.6	—	—	—	6.6
Stock issued under employee benefit plans (1,691,264 shares)	0.1	16.1	—	—	—	16.2
Cash paid for shares withheld for taxes	—	(78.5)	—	—	—	(78.5)
Stock-based compensation expense	—	91.4	—	—	—	91.4
Cash dividends declared ($0.80 per share)	—	—	(289.3)	—	—	(289.3)
Repurchases of common stock (10,432,890 shares)	—	—	—	(874.0)	—	(874.0)
Distributions to noncontrolling interests	—	—	—	—	(0.1)	(0.1)
Change of ownership interest in Forestar	—	(1.7)	—	—	32.9	31.2
Balances at September 30, 2021 (356,015,843 shares)	$ 4.0	$ 3,274.8	$ 13,644.3	$ (2,036.6)	$ 329.7	$ 15,216.2

See accompanying notes to consolidated financial statements.

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

	Year Ended September 30,		
	2021	2020	2019
		(In millions)	
OPERATING ACTIVITIES			
Net income	$ 4,191.2	$ 2,380.5	$ 1,618.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	73.9	80.4	72.0
Amortization of discounts and fees	8.2	10.2	10.9
Stock-based compensation expense	91.4	77.8	73.2
Equity in earnings of unconsolidated entities	(1.0)	(0.7)	—
Deferred income taxes	(10.0)	14.1	20.1
Inventory and land option charges	28.6	23.8	54.0
Gain on sale of assets	(14.0)	(59.5)	(53.9)
Loss on extinguishment of debt	18.1	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in construction in progress and finished homes	(1,734.9)	(739.1)	84.6
Increase in residential land and lots — developed, under development, held for development and held for sale	(1,720.6)	(324.4)	(676.4)
Increase in rental properties	(303.6)	—	—
Increase in other assets	(439.7)	(150.7)	(161.6)
Increase in mortgage loans held for sale	(498.3)	(457.0)	(275.6)
Increase in accounts payable, accrued expenses and other liabilities	845.1	566.2	126.2
Net cash provided by operating activities	534.4	1,421.6	892.1
INVESTING ACTIVITIES			
Expenditures for property and equipment	(93.5)	(96.5)	(127.2)
Proceeds from sale of assets	37.6	129.8	143.8
Expenditures related to rental properties	(173.9)	(190.3)	(96.9)
Payments related to business acquisitions, net of cash acquired	(24.5)	(9.7)	(315.8)
Other investing activities	2.1	0.6	2.1
Net cash used in investing activities	(252.2)	(166.1)	(394.0)
FINANCING ACTIVITIES			
Proceeds from notes payable	1,541.6	2,346.1	2,528.2
Repayment of notes payable	(826.3)	(1,682.9)	(2,686.1)
Advances on mortgage repurchase facility, net	362.0	243.7	251.2
Proceeds from stock associated with certain employee benefit plans	22.7	23.4	42.7
Cash paid for shares withheld for taxes	(78.5)	(38.2)	(19.7)
Cash dividends paid	(289.3)	(256.0)	(223.4)
Repurchases of common stock	(848.4)	(360.4)	(479.8)
Distributions to noncontrolling interests, net	(0.1)	(0.7)	(3.9)
Net proceeds from issuance of Forestar common stock	33.5	—	100.7
Other financing activities	(2.3)	(4.4)	—
Net cash (used in) provided by financing activities	(85.1)	270.6	(490.1)
Net increase in cash, cash equivalents and restricted cash	197.1	1,526.1	8.0
Cash, cash equivalents and restricted cash at beginning of year	3,040.1	1,514.0	1,506.0
Cash, cash equivalents and restricted cash at end of year	$ 3,237.2	$ 3,040.1	$ 1,514.0

	Year Ended September 30,		
	2021	2020	2019
		(In millions)	
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes paid, net	$ 1,137.8	$ 581.3	$ 488.0
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES			
Notes payable issued for inventory	$ 12.5	$ 5.1	$ 83.6
Stock issued under employee incentive plans	$ 124.7	$ 84.4	$ 49.6
Accrual for holdback payment related to acquisition	$ 1.1	$ 0.7	$ 10.1
Repurchase of common stock not settled	$ 25.6	$ —	$ —

See accompanying notes to consolidated financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and 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. As of September 30, 2021, the Company owns a 63% controlling interest in Forestar Group Inc. (Forestar) and therefore is required to consolidate 100% of Forestar within its consolidated financial statements, and the 37% interest the Company does not own is accounted for as noncontrolling interests. All intercompany accounts, transactions and balances have been eliminated in consolidation.

Reclassifications

During the third quarter of fiscal 2021, the Company changed the presentation of its single and multi-family rental operations in its consolidated financial statements. Bulk sales of rental properties are now presented as revenues and cost of sales, rental assets previously recorded as property and equipment have been reclassified to inventory, and related cash flows for the single and multi-family rental operations are now included in operating activities. Prior to the third quarter of fiscal 2021, bulk sales of rental properties were presented on a net basis as a gain on sale of assets, and the majority of the cash flow activities were included in investing activities. This change in presentation was implemented as a result of the Company's change in strategic focus during the third quarter of fiscal 2021, which included increased levels of rental property activity during that quarter and plans for future investment in the Company's single and multi-family rental operations. This presentation was effected on a prospective basis in the Company's consolidated financial statements beginning in the third quarter of fiscal 2021.

Additionally, during the fourth quarter of fiscal 2021, the Company changed its internal organization and reporting of its operating segments and reportable segments to combine its single-family rental operations and its multi-family rental operations into a new reporting segment to reflect the method by which the chief operating decision makers manage the business, evaluate internal results and allocate financial resources. The Company's single-family rental operations had previously been reported in its homebuilding segment and its multi-family operations had previously been reported in its other segment. Additionally, the Company realigned the aggregation of its homebuilding operating segments into six new reportable segments to better allocate its homebuilding operating segments across geographic reporting regions.

In the Company's segment information in Note B and in Management's Discussion and Analysis of Financial Condition and Results of Operations, the prior presentation has been conformed to the current presentation for all periods presented to be consistent with how management evaluates segment performance.

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.

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.

When the Company executes sales contracts with its homebuyers, or when it requires advance payment from homebuyers for custom changes, upgrades or options related to their homes, the cash deposits received are recorded as liabilities until the homes are closed or the contracts are cancelled. The Company either retains or refunds to the homebuyer deposits on cancelled sales contracts, depending upon the applicable provisions of the contract or other circumstances.

Forestar's land and lot sales 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 a third-party buyer. Forestar's revenues from land and lot sales to D.R. Horton are eliminated in the consolidated financial statements.

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

The Company's rental operations develop, construct, lease, own and ultimately sell multi-family and single-family rental properties. Revenue is recognized from the sale of these properties on the closing date, which is when performance obligations are satisfied. Rental income from these properties is recognized as other income.

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. Revenues associated with the Company's mortgage operations primarily include net gains on the sale of mortgage loans and servicing rights. The Company typically elects the fair value option for its mortgage loan originations whereby mortgage loans held for sale are recorded at fair value based on either sale commitments or current market quotes and loan values are adjusted through revenues for subsequent changes in fair value until the loans are sold. Expected gains and losses from the sale of servicing rights are included in the measurement of all written loan commitments that are accounted for at fair value through revenues 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Proceeds from home closings held for the Company's benefit at title companies, which totaled $478.9 million and $237.6 million at September 30, 2021 and 2020, respectively, are included in homebuilding cash and cash equivalents in the consolidated balance sheets.

Cash balances of the Company's captive insurance subsidiary, which are expected to be used to fund the subsidiary's operations and pay future anticipated legal claims, were $55.9 million and $51.3 million at September 30, 2021 and 2020, respectively, and are included in cash and cash equivalents in the consolidated balance sheets.

Restricted Cash

The Company has cash that is restricted as to its use. Restricted cash related to homebuilding and land development operations includes customer deposits that are temporarily restricted in accordance with regulatory requirements. Restricted cash related to financial services is mortgagor related funds held by the Company for taxes and insurance on an interim basis until the loans are sold.

Inventories and Cost of Sales

Inventory includes the costs of direct land acquisition, land development and construction, capitalized interest, real estate taxes and direct overhead costs incurred during development and construction. Costs incurred after projects or homes are substantially complete, such as utilities, maintenance, and cleaning, are charged to selling, general and administrative (SG&A) expense as incurred. All indirect overhead costs, such as compensation of sales personnel, division and region management, and the costs of advertising and builder's risk insurance are charged to SG&A expense as incurred.

Land and development costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to construction in progress when home construction begins. Home construction costs are specifically identified and recorded to individual homes. Cost of sales for homes closed includes the specific construction costs of each home and all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot based upon the total number of homes expected to be closed in each community. Cost of sales for lots sold includes all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot in the community. Any changes to the estimated total development costs subsequent to the initial home or lot closings in a community are generally allocated on a pro-rata basis to the remaining homes or lots in the community associated with the relevant development activity. Development and construction costs incurred related to the rental operations are recorded as rental property inventory. Cost of sales related to the rental operations include the specific construction costs and all applicable land acquisition, land development and related costs for each rental project.

When a home is closed, the Company generally has not paid all incurred costs necessary to complete the home. A liability and a corresponding charge to cost of sales are recorded for the amount estimated to ultimately be paid related to completed homes that have been closed. Home construction budgets are compared to actual recorded costs to determine the additional costs remaining to be paid on each closed home.

The Company rarely purchases land for resale. However, when the Company owns land or communities under development that do not fit into its development and construction plans, and the Company determines that it will sell the asset, the project is accounted for as land held for sale if certain criteria are met. The Company records land held for sale at the lesser of its carrying value or fair value less estimated costs to sell.

At the end of each quarter, the Company reviews the performance and outlook for all of its communities and land inventories for indicators of potential impairment. If indicators of impairment are present for a community, the Company performs an impairment evaluation of the community, which includes an analysis to determine if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. If so, impairment charges are recorded to cost of sales if the fair value of such assets is less than their carrying amounts. Impairment charges are also recorded on finished homes in substantially completed communities and completed rental properties when events or circumstances indicate that the carrying values are greater than the fair values less estimated costs to sell these homes. The key assumptions relating to inventory valuations are impacted by local market and economic conditions and are inherently uncertain. Due to uncertainties in the estimation process, actual results could differ from such estimates. See Note C.

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 fiscal 2021, 2020 and 2019, the Company's active inventory exceeded its debt level, and all interest incurred was capitalized to inventory. See Note E.

Land Purchase Contract Deposits and Pre-Acquisition Costs

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 purchase contract deposits and capitalized pre-acquisition costs are expensed to cost of sales when the Company believes it is probable that it will not acquire the property under contract and will not be able to recover these costs through other means. See Notes C and L.

Variable Interests

Land purchase contracts can result in the creation of a variable interest in the entity holding the land parcel under contract. There were no variable interest entities reported in the consolidated balance sheets at September 30, 2021 or 2020 because, with regard to each entity, the Company determined it did not control the activities that most significantly impact the variable interest entity's economic performance.

The maximum exposure to losses related to the Company's unconsolidated variable interest entities is limited to the amounts of the Company's related deposits. At September 30, 2021 and 2020, the deposits related to these contracts totaled $870.2 million and $519.6 million, respectively, and are included in other assets in the consolidated balance sheets.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Repairs and maintenance costs are expensed as incurred. Depreciation generally is recorded using the straight-line method over the estimated useful life of the asset. The depreciable life of model home furniture is 2 years, depreciable lives of other furniture and equipment typically range from 2 to 5 years, and depreciable lives of buildings and improvements typically range from 5 to 30 years. See Note F.

Business Acquisitions

The Company accounts for acquisitions of businesses by allocating the purchase price of the business to the various assets acquired and liabilities assumed at their respective fair values. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets. These estimates and assumptions are based on historical experience, information obtained from the management of the acquired companies and the Company's estimates of significant assumptions that a market participant would use when determining fair value. While the Company believes the estimates and assumptions are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

In October 2020, the Company acquired the homebuilding operations of Braselton Homes in Corpus Christi, Texas for approximately $23.0 million in cash. The assets acquired included approximately 90 homes in inventory, 95 lots and control of approximately 840 additional lots through purchase contracts.

Goodwill

The Company records goodwill associated with its acquisitions of businesses when the purchase price of the business exceeds the fair value of the identifiable net assets acquired. Goodwill balances are evaluated for potential impairment on at least an annual basis by performing a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of an operating segment with goodwill is less than its carrying amount. If the qualitative assessment indicates that additional impairment testing is required, then a quantitative assessment is performed to determine the operating segment's fair value. The estimated fair value is determined by discounting the future cash flows of the operating segment to present value. If the carrying value of the operating segment exceeds its fair value, the Company records a goodwill impairment by the amount that an operating segment's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. As a result of the qualitative assessments performed in fiscal 2021, 2020 and 2019, no impairment charges were indicated or recorded.

The Company's goodwill balances by reporting segment were as follows:

	September 30,	
	2021	2020
	(In millions)	
Northwest	$ 2.2	$ 2.2
Southwest	—	—
South Central	15.9	15.9
Southeast	6.0	6.0
East	60.5	60.5
North	49.7	49.7
Forestar	29.2	29.2
Total goodwill	$ 163.5	$ 163.5

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. Since the Company subcontracts its construction work to subcontractors who typically provide it with an indemnity and a certificate of insurance prior to receiving payments for their work, claims relating to workmanship and materials are generally the primary responsibility of the subcontractors. Warranty liabilities have been established by charging cost of sales for each home delivered. The amounts charged are based on management's estimate of expected warranty-related costs under all unexpired warranty obligation periods. 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. See Note L.

Legal Claims and Insurance

The Company records expenses and liabilities for legal claims related to construction defect matters, personal injury claims, employment matters, land development issues, contract disputes and other matters. The amounts recorded for these contingencies are based on the estimated costs of pending claims and the estimated costs of anticipated future claims related to previously closed homes. The Company estimates and records receivables under its applicable insurance policies for these legal claims when recovery is probable. However, because the self-insured retentions under these policies are significant, the Company anticipates it will largely be self-insured. 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. See Note L.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense was approximately $36.1 million, $41.7 million and $47.0 million in fiscal 2021, 2020 and 2019, respectively.

Income Taxes

The Company's income tax expense is calculated using the asset and liability method, under which deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement amounts of assets and liabilities and their respective tax bases and attributable to net operating losses and tax credit carryforwards. When assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of sufficient taxable income in future periods and in the jurisdictions in which those temporary differences become deductible. The Company records a valuation allowance when it determines it is more likely than not that a portion of the deferred tax assets will not be realized. 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 and liabilities. See Note H.

Interest and penalties related to unrecognized tax benefits are recognized in the financial statements as a component of income tax expense. Significant judgment is required to evaluate uncertain tax positions. The Company evaluates its uncertain tax positions on a quarterly basis. The evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in increases or decreases in the Company's income tax expense in the period in which the change is made. The Company's unrecognized tax benefits totaled $2.9 million and $8.9 million at September 30, 2021 and 2020, respectively.

Earnings Per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted earnings per share is based on the weighted average number of shares of common stock and dilutive securities outstanding during each year. See Note I.

Stock-Based Compensation

The Company's stockholders formally authorize shares of its common stock to be available for future grants of stock-based compensation awards. From time to time, the Compensation Committee of the Company's Board of Directors authorizes the grant of stock-based compensation to its employees and directors from these available shares. At September 30, 2021, the outstanding stock-based compensation awards include stock options and restricted stock units. Grants of restricted stock units vest over a certain number of years as determined by the Compensation Committee of the Board of Directors. Restricted stock units outstanding at September 30, 2021 have a remaining vesting period up to 4.6 years. Stock options are granted at exercise prices which equal the market value of the Company's common stock at the date of the grant. All stock options outstanding at September 30, 2021 have vested and expire 10 years after the dates on which they were granted.

The compensation expense for stock-based awards is based on the fair value of the award and is recognized on a straight-line basis over the remaining vesting period. The fair values of restricted stock units are based on the Company's stock price on the date of grant. The fair values of stock options granted are calculated on the date of grant using a Black-Scholes option pricing model. Determining the fair value of stock options requires judgment in developing assumptions and involves a number of estimates. These estimates include, but are not limited to, the expected stock price volatility over the term of the awards, the expected dividend yield and expected stock option exercise behavior. See Note K.

Fair Value Measurements

The Financial Accounting Standards Board's (FASB) authoritative guidance for fair value measurements establishes a three-level hierarchy based upon the inputs to the valuation model of an asset or liability. When available, the Company uses quoted market prices in active markets to determine fair value. The Company considers the principal market and nonperformance risk associated with the Company's counterparties when determining the fair value measurements, if applicable. Fair value measurements are used for the Company's mortgage loans held for sale, mortgage servicing rights, interest rate lock commitments and other derivative instruments on a recurring basis and are used for inventories, other mortgage loans, rental properties and real estate owned on a nonrecurring basis, when events and circumstances indicate that the carrying value is not recoverable. See Note N.

Pending Accounting Standards

In December 2019, the FASB issued ASU 2019-12 related to simplifying the accounting for income taxes. The guidance is effective for the Company beginning October 1, 2021 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform," which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01, "Reference Rate Reform - Scope," which clarified the scope and application of the original guidance. The Company will adopt these standards when LIBOR is discontinued and does not expect them to have a material impact on its consolidated financial statements or related disclosures.

In October 2021, the FASB issued ASU 2021-08, which requires application of ASC 606, "Revenue from Contracts with Customers," to recognize and measure contract assets and liabilities from contracts with customers acquired in a business combination. ASU 2021-08 creates an exception to the general recognition and measurement principle in ASC 805 and will result in recognition of contract assets and contract liabilities consistent with those recorded by the acquiree immediately before the acquisition date. The guidance is effective for the Company beginning October 1, 2023 and interim periods therein, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows.

NOTE B – SEGMENT INFORMATION

The Company's operating segments are its 56 homebuilding divisions, its majority-owned Forestar residential lot development operations, its financial services operations, its rental operations and its other business activities. The Company's reporting segments are its homebuilding reporting segments, its Forestar lot development segment, its financial services segment and its rental operations segment. During the fourth quarter of fiscal 2021, the Company changed its internal organization and reporting of its operating segments and reportable segments to combine its single-family rental operations and its multi-family rental operations into a new reporting segment to reflect the method by which the chief operating decision makers manage the business, evaluate internal results and allocate financial resources. The Company's single-family rental operations had previously been reported in its homebuilding segment and its multi-family rental operations had previously been reported in its other segment. Additionally, the Company realigned the aggregation of its homebuilding operating segments into six new reportable segments to better allocate its homebuilding operating segments across geographic reporting regions. Segment information reported in prior year periods has been reclassified to conform to the 2021 presentation.

Homebuilding

Based on the new aggregation described above, the six reporting segments and the states in which the Company has homebuilding operations are as follows:

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

Homebuilding is the Company's core business, generating 96% of consolidated revenues in fiscal 2021 and 97% of consolidated revenues in fiscal 2020 and 2019. The Company's homebuilding divisions are primarily engaged in the acquisition and development of land and the construction and sale of residential homes, with operations in 98 markets across 31 states. 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.

Forestar

The Forestar segment is a residential lot development company with operations in 56 markets across 23 states. Forestar has made significant investments in land acquisition and development to expand its business across the United States. The homebuilding divisions acquire 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.

Financial Services

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.

Rental

The Company's rental segment consists of multi-family and single-family rental operations. The multi-family rental operations develop, construct, lease, own and ultimately sell the residential properties. The single-family rental operations construct single-family rental homes with the intent to later market the community for a bulk sale of homes.

Other

In addition to its homebuilding, Forestar, financial services and rental operations, the Company engages in other business activities through its subsidiaries. The Company conducts insurance-related operations, owns non-residential real estate including ranch land and improvements and owns and operates energy related assets. The results of these operations are immaterial for separate reporting and therefore are grouped together and presented as other within the Eliminations and Other column in the tables that follow.

The accounting policies of the reporting segments are described throughout Note A. Financial information relating to the Company's reporting segments is as follows:

	September 30, 2021					
	Homebuilding	Forestar (1)	Financial Services	Rental	Eliminations and Other (2)	Consolidated
	(In millions)					
Assets						
Cash and cash equivalents	$ 2,950.1	$ 153.6	$ 79.0	$ 16.8	$ 10.9	$ 3,210.4
Restricted cash	8.4	—	18.0	0.4	—	26.8
Inventories:						
Construction in progress and finished homes	7,848.0	—	—	—	(108.8)	7,739.2
Residential land and lots — developed and under development	6,004.0	1,824.7	—	—	(46.9)	7,781.8
Land held for development	30.4	80.5	—	—	—	110.9
Land held for sale	25.4	—	—	—	—	25.4
Rental properties	—	—	—	840.9	(19.1)	821.8
	13,907.8	1,905.2	—	840.9	(174.8)	16,479.1
Mortgage loans held for sale	—	—	2,027.3	—	—	2,027.3
Deferred income taxes, net	159.2	—	—	—	(3.9)	155.3
Property and equipment, net	303.3	2.9	3.5	0.6	82.6	392.9
Other assets	1,468.7	40.0	107.6	6.3	(62.0)	1,560.6
Goodwill	134.3	—	—	—	29.2	163.5
	$ 18,931.8	$ 2,101.7	$ 2,235.4	$ 865.0	$ (118.0)	$ 24,015.9
Liabilities						
Accounts payable	$ 1,073.7	$ 47.4	$ —	$ 55.9	$ —	$ 1,177.0
Accrued expenses and other liabilities	1,941.3	333.9	88.6	15.0	(168.5)	2,210.3
Notes payable	3,214.0	704.5	1,494.6	—	(0.7)	5,412.4
	$ 6,229.0	$ 1,085.8	$ 1,583.2	$ 70.9	$ (169.2)	$ 8,799.7

(1) Amounts are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance.

(2) Amounts include the balances of the Company's other businesses, reconciling amounts between segment and consolidated balances, the elimination of intercompany transactions and, to a lesser extent, purchase accounting adjustments related to the Forestar acquisition.

	September 30, 2020					
	Homebuilding	Forestar (1)	Financial Services	Rental	Eliminations and Other (2)	Consolidated
	(In millions)					
Assets						
Cash and cash equivalents	$ 2,551.0	$ 394.3	$ 55.6	$ 12.7	$ 4.9	$ 3,018.5
Restricted cash	9.4	—	11.9	0.3	—	21.6
Inventories:						
Construction in progress and finished homes	6,037.5	—	—	—	(53.4)	5,984.1
Residential land and lots — developed and under development	4,901.4	1,304.3	—	—	(33.9)	6,171.8
Land held for development	47.8	5.4	—	—	—	53.2
Land held for sale	28.3	—	—	—	—	28.3
Rental properties	—	—	—	316.0	(316.0)	—
	11,015.0	1,309.7	—	316.0	(403.3)	12,237.4
Mortgage loans held for sale	—	—	1,529.0	—	—	1,529.0
Deferred income taxes, net	142.3	—	—	—	2.6	144.9
Property and equipment, net	286.7	1.1	3.9	—	392.0	683.7
Other assets	996.3	34.8	125.8	4.5	(47.7)	1,113.7
Goodwill	134.3	—	—	—	29.2	163.5
	$ 15,135.0	$ 1,739.9	$ 1,726.2	$ 333.5	$ (22.3)	$ 18,912.3
Liabilities						
Accounts payable	$ 858.1	$ 29.2	$ —	$ 13.2	$ —	$ 900.5
Accrued expenses and other liabilities	1,437.5	197.8	86.8	6.4	(121.5)	1,607.0
Notes payable	2,514.4	641.1	1,132.6	—	(4.8)	4,283.3
	$ 4,810.0	$ 868.1	$ 1,219.4	$ 19.6	$ (126.3)	$ 6,790.8

(1) Amounts are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance.

(2) Amounts include the balances of the Company's other businesses, reconciling amounts between segment and consolidated balances, the elimination of intercompany transactions and, to a lesser extent, purchase accounting adjustments related to the Forestar acquisition.

	Year Ended September 30, 2021					
	Homebuilding	Forestar (1)	Financial Services	Rental	Eliminations and Other (2)	Consolidated
	(In millions)					
Revenues						
Home sales	$ 26,502.6	$ —	$ —	$ —	$ —	$ 26,502.6
Land/lot sales and other	75.0	1,325.8	—	—	(1,188.8)	212.0
Rental property sales	—	—	—	267.8	(31.8)	236.0
Financial services	—	—	823.6	—	—	823.6
	26,577.6	1,325.8	823.6	267.8	(1,220.6)	27,774.2
Cost of sales						
Home sales (3)	19,748.4	—	—	—	(140.1)	19,608.3
Land/lot sales and other	56.2	1,093.6	—	—	(1,030.5)	119.3
Rental property sales	—	—	—	160.8	(17.8)	143.0
Inventory and land option charges	24.9	3.0	—	0.7	—	28.6
	19,829.5	1,096.6	—	161.5	(1,188.4)	19,899.2
Selling, general and administrative expense	1,945.6	68.4	488.3	44.6	9.3	2,556.2
Gain on sale of assets	—	(2.5)	—	—	(11.5)	(14.0)
Loss on extinguishment of debt	—	18.1	—	—	—	18.1
Other (income) expense	(10.3)	(1.4)	(29.3)	(24.8)	24.2	(41.6)
Income before income taxes	$ 4,812.8	$ 146.6	$ 364.6	$ 86.5	$ (54.2)	$ 5,356.3
Summary Cash Flow Information						
Depreciation and amortization	$ 56.7	$ 0.4	$ 1.7	$ 5.1	$ 10.0	$ 73.9
Cash provided by (used in) operating activities	$ 1,239.8	$ (303.1)	$ (195.8)	$ (410.0)	$ 203.5	$ 534.4

(1) Results are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance.

(2) Amounts include the results of the Company's other businesses, reconciling amounts between segment and consolidated balances, the elimination of intercompany transactions and, to a lesser extent, purchase accounting adjustments related to the Forestar acquisition.

(3) Amount in the Eliminations and Other column represents the recognition of 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.

	Year Ended September 30, 2020					
	Homebuilding	Forestar (1)	Financial Services	Rental	Eliminations and Other (2)	Consolidated
	(In millions)					
Revenues						
Home sales	$ 19,560.8	$ —	$ —	$ —	$ —	$ 19,560.8
Land/lot sales and other	80.7	931.8	—	—	(847.1)	165.4
Rental property sales	—	—	—	128.5	(128.5)	—
Financial services	—	—	584.9	—	—	584.9
	19,641.5	931.8	584.9	128.5	(975.6)	20,311.1
Cost of sales						
Home sales (3)	15,305.8	—	—	—	(58.6)	15,247.2
Land/lot sales and other	58.3	812.8	—	—	(768.9)	102.2
Rental property sales	—	—	—	69.0	(69.0)	—
Inventory and land option charges	22.9	0.9	—	—	—	23.8
	15,387.0	813.7	—	69.0	(896.5)	15,373.2
Selling, general and administrative expense	1,600.7	45.7	364.7	27.8	8.9	2,047.8
Gain on sale of assets	—	(0.1)	—	—	(59.4)	(59.5)
Other (income) expense	(11.7)	(5.6)	(25.0)	(8.1)	17.0	(33.4)
Income before income taxes	$ 2,665.5	$ 78.1	$ 245.2	$ 39.8	$ (45.6)	$ 2,983.0
Summary Cash Flow Information						
Depreciation and amortization	$ 67.0	$ 0.3	$ 1.6	$ 5.0	$ 6.5	$ 80.4
Cash provided by (used in) operating activities	$ 1,888.4	$ (168.5)	$ (292.8)	$ (71.8)	$ 66.3	$ 1,421.6

(1) Results are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance.

(2) Amounts include the results of the Company's other businesses, reconciling amounts between segment and consolidated balances, the elimination of intercompany transactions and, to a lesser extent, purchase accounting adjustments related to the Forestar acquisition.

(3) Amount in the Eliminations and Other column represents the recognition of 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.

	Year Ended September 30, 2019					
	Homebuilding	Forestar (1)	Financial Services	Rental	Eliminations and Other (2)	Consolidated
	(In millions)					
Revenues						
Home sales	$ 16,925.0	$ —	$ —	$ —	$ —	$ 16,925.0
Land/lot sales and other	91.9	428.3	—	—	(294.0)	226.2
Rental property sales	—	—	—	133.4	(133.4)	—
Financial services	—	—	441.7	—	—	441.7
	17,016.9	428.3	441.7	133.4	(427.4)	17,592.9
Cost of sales						
Home sales (3)	13,507.1	—	—	—	(8.3)	13,498.8
Land/lot sales and other	75.1	361.9	—	—	(268.9)	168.1
Rental property sales	—	—	—	81.8	(81.8)	—
Inventory and land option charges	53.2	0.8	—	—	—	54.0
	13,635.4	362.7	—	81.8	(359.0)	13,720.9
Selling, general and administrative expense	1,482.3	28.9	293.0	20.3	8.0	1,832.5
Gain on sale of assets	(2.0)	(3.0)	—	—	(48.9)	(53.9)
Other (income) expense	(9.5)	(6.0)	(17.6)	(10.0)	11.2	(31.9)
Income before income taxes	$ 1,910.7	$ 45.7	$ 166.3	$ 41.3	$ (38.7)	$ 2,125.3
Summary Cash Flow Information						
Depreciation and amortization	$ 63.7	$ 0.2	$ 1.5	$ 4.1	$ 2.5	$ 72.0
Cash provided by (used in) operating activities	$ 1,452.5	$ (391.3)	$ (150.2)	$ 17.4	$ (36.3)	$ 892.1

(1) Results are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance.

(2) Amounts include the results of the Company's other businesses, reconciling amounts between segment and consolidated balances, the elimination of intercompany transactions and, to a lesser extent, purchase accounting adjustments related to the Forestar acquisition.

(3) Amount in the Eliminations and Other column represents the recognition of 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.

Homebuilding Inventories by Reporting Segment (1)	September 30, 2021	September 30, 2020
	(In millions)	
Northwest	$ 1,307.5	$ 984.6
Southwest	2,445.6	2,063.3
South Central	3,479.3	2,577.6
Southeast	3,178.6	2,648.9
East	1,919.6	1,540.2
North	1,368.9	976.9
Corporate and unallocated (2)	208.3	223.5
	$ 13,907.8	$ 11,015.0

(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	Year Ended September 30, 2021	Year Ended September 30, 2020	Year Ended September 30, 2019
		(In millions)	
Revenues			
Northwest	$ 2,516.6	$ 1,953.4	$ 1,721.5
Southwest	4,071.0	3,230.3	3,050.8
South Central	6,111.2	4,625.9	3,944.0
Southeast	7,079.6	4,871.5	4,023.5
East	4,459.0	3,410.1	3,081.2
North	2,340.2	1,550.3	1,195.9
	$ 26,577.6	$ 19,641.5	$ 17,016.9
Inventory and Land Option Charges			
Northwest	$ 0.6	$ 1.3	$ 6.3
Southwest	3.0	3.5	18.6
South Central	5.3	6.4	11.2
Southeast	10.2	5.9	8.3
East	2.4	3.0	3.9
North	3.4	2.8	4.9
	$ 24.9	$ 22.9	$ 53.2
Income Before Income Taxes (1)			
Northwest	$ 510.8	$ 264.5	$ 222.9
Southwest	653.1	366.1	284.5
South Central	1,150.2	714.9	527.6
Southeast	1,371.9	709.5	477.8
East	795.1	484.3	361.9
North	331.7	126.2	36.0
	$ 4,812.8	$ 2,665.5	$ 1,910.7

(1) Expenses maintained at the corporate level consist primarily of homebuilding 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.

NOTE C – INVENTORIES

At the end of each quarter, the Company reviews the performance and outlook for all of its communities and land inventories for indicators of potential impairment and performs detailed impairment evaluations and analyses when necessary. As of September 30, 2021, the Company determined that no communities were impaired, and no impairment charges were recorded during the three months ended September 30, 2021. There were $5.6 million of impairment charges recorded during fiscal 2021 compared to $1.7 million and $25.7 million of impairment charges recorded in fiscal 2020 and 2019, respectively.

During fiscal 2021, 2020 and 2019, earnest money and pre-acquisition cost write-offs related to land purchase contracts that the Company has terminated or expects to terminate were $23.0 million, $22.1 million and $28.3 million, respectively. Inventory impairments and land option charges are included in cost of sales in the consolidated statements of operations.

NOTE D – NOTES PAYABLE

The Company's notes payable at their carrying amounts consist of the following:

	September 30,	
	2021	2020
	(In millions)	
Homebuilding:		
Unsecured:		
Revolving credit facility	$ —	$ —
364-day revolving credit facility (1)	—	—
2.55% senior notes due 2020 (2)	—	399.8
4.375% senior notes due 2022 (2)	349.6	349.2
4.75% senior notes due 2023 (2)	299.5	299.2
5.75% senior notes due 2023 (2)	399.1	398.7
2.5% senior notes due 2024 (2)	497.3	496.5
2.6% senior notes due 2025 (2)	496.2	495.1
1.3% senior notes due 2026 (2)	594.5	—
1.4% senior notes due 2027 (2)	494.9	—
Other secured notes (3)	82.2	71.1
	3,213.3	2,509.6
Forestar:		
Unsecured:		
Revolving credit facility	—	—
8.0% senior notes due 2024 (4)(5)	—	345.2
3.85% senior notes due 2026 (5)	395.5	—
5.0% senior notes due 2028 (5)	296.5	295.9
Other secured notes	12.5	—
	704.5	641.1
Financial Services:		
Mortgage repurchase facility	1,494.6	1,132.6
	$ 5,412.4	$ 4,283.3

See footnotes on following page.

(1) The Company's $375 million 364-day senior unsecured homebuilding revolving credit facility was not renewed upon its maturity in May 2021.

(2) Debt issuance costs that were deducted from the carrying amounts of the homebuilding senior notes totaled $16.5 million and $10.7 million at September 30, 2021 and 2020, respectively.

(3) Homebuilding other secured notes excludes $0.7 million and $4.8 million of earnest money notes payable to Forestar at September 30, 2021 and 2020, respectively. These intercompany notes are eliminated in consolidation.

(4) Forestar's 8.0% senior notes due April 2024 were redeemed in May 2021.

(5) Debt issuance costs that were deducted from the carrying amount of Forestar's senior notes totaled $8.0 million and $8.9 million at September 30, 2021 and 2020, respectively.

As of September 30, 2021, maturities of consolidated notes payable, assuming the mortgage repurchase facility is not extended or renewed, are $1.9 billion in fiscal 2022, $700.3 million in fiscal 2023, $13.7 million in fiscal 2024, $500.4 million in fiscal 2025, $900.4 million in fiscal 2026 and $1.4 billion thereafter.

Homebuilding:

In April 2021, the Company's senior unsecured homebuilding revolving credit facility was amended to increase its capacity to $2.19 billion with an uncommitted accordion feature that could increase the size of the facility to $3.0 billion, subject to certain conditions and availability of additional bank commitments. The maturity date of the facility was extended to April 20, 2026. The facility also provides for the issuance of letters of credit with a sublimit equal to 100% 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 LIBOR plus an applicable margin, as defined in the credit agreement governing the facility. At September 30, 2021, there were no borrowings outstanding and $187.1 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $2.0 billion.

The Company's homebuilding revolving credit facility imposes restrictions on its operations and activities, including requiring the maintenance of a maximum allowable leverage ratio and a borrowing base restriction if the leverage ratio 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 indentures governing the senior notes also impose restrictions on the creation of secured debt and liens. At September 30, 2021, the Company was in compliance with all of the covenants, limitations and restrictions of its homebuilding revolving credit facility and public debt obligations.

D.R. Horton has an automatically effective universal shelf registration statement filed with the SEC in July 2021, registering debt and equity securities that the Company may issue from time to time in amounts to be determined.

In October 2020, the Company issued $500 million principal amount of 1.4% senior notes due October 15, 2027, with interest payable semi-annually. The annual effective interest rate of these notes after giving effect to the amortization of the discount and financing costs is 1.6%. In December 2020, the Company repaid $400 million principal amount of its 2.55% senior notes at maturity. In August 2021, the Company issued $600 million principal amount of 1.3% senior notes due October 15, 2026, with interest payable semi-annually. The annual effective interest rate of these notes after giving effect to the amortization of the discount and financing costs is 1.5%.

The key terms of the Company's homebuilding senior notes outstanding as of September 30, 2021 are summarized below.

Notes Payable	Principal Amount	Date Issued	Date Due	Redeemable Prior to Maturity (1)	Effective Interest Rate (2)
	(In millions)				
4.375% senior notes	$350	September 2012	September 15, 2022	Yes	4.5%
4.75% senior notes	$300	February 2013	February 15, 2023	Yes	4.9%
5.75% senior notes	$400	August 2013	August 15, 2023	Yes	5.9%
2.5% senior notes	$500	October 2019	October 15, 2024	Yes	2.7%
2.6% senior notes	$500	May 2020	October 15, 2025	Yes	2.8%
1.3% senior notes	$600	August 2021	October 15, 2026	Yes	1.5%
1.4% senior notes	$500	October 2020	October 15, 2027	Yes	1.6%

(1) The Company may redeem the notes in whole at any time or in part from time to time, at a redemption price equal to the greater of 100% of their principal amount or the present value of the remaining scheduled payments discounted to the redemption date, plus accrued and unpaid interest. In addition, the 4.375% senior notes, 4.75% senior notes and 5.75% senior notes are redeemable at a redemption price of 100% of their principal amount, plus accrued and unpaid interest, on or after the date that is three months prior to the final maturity date of the notes. The 2.5% senior notes, the 2.6% senior notes and the 1.3% senior notes are redeemable at a redemption price of 100% of their principal amount, plus accrued and unpaid interest, on or after the date that is one month prior to the final maturity date of the notes. The 1.4% senior notes are redeemable at a redemption price of 100% of their principal amount, plus accrued and unpaid interest, on or after the date that is two months prior to the final maturity of the notes.

(2) Interest is payable semi-annually on each of the series of senior notes. The annual effective interest rate is calculated after giving effect to the amortization of debt issuance costs and the discount, if applicable.

All series of homebuilding senior notes and borrowings under the homebuilding revolving credit facility are senior obligations and rank *pari passu* in right of payment to all existing and future unsecured indebtedness and senior to all existing and future indebtedness expressly subordinated to them. The homebuilding senior notes and borrowings under the homebuilding revolving credit facilities are guaranteed by entities that hold approximately 80% of the Company's assets. Upon the occurrence of both a change of control of the Company and a ratings downgrade event, as defined in the indentures governing its senior notes, the Company would be required in certain circumstances to offer to repurchase these notes at 101% of their principal amount, along with accrued and unpaid interest. Also, a change of control as defined in the revolving credit facility would constitute an event of default under the revolving credit facilities, which could result in the acceleration of any borrowings outstanding under the facilities and the termination of the commitments thereunder.

Effective July 30, 2019, the Board of Directors authorized the repurchase of up to $500 million of the Company's debt securities. The authorization has no expiration date. All of the $500 million authorization was remaining at September 30, 2021.

Forestar:

In April 2021, Forestar's senior unsecured revolving credit facility was amended to increase its capacity to $410 million with an uncommitted accordion feature that could increase the size of the facility to $600 million, subject to certain conditions and availability of additional bank commitments. The maturity date of the facility was extended to April 16, 2025. 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 calculation based on Forestar's book value of its real estate assets and unrestricted cash. Letters of credit issued under the facility reduce the available borrowing capacity. Borrowings and repayments under the facility totaled $58.0 million each during fiscal 2021. At September 30, 2021, there were no borrowings outstanding and $60.3 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $349.7 million.

The Forestar 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.

In April 2021, Forestar issued $400 million principal amount of 3.85% senior notes that mature May 15, 2026 with interest payable semi-annually. The annual effective interest rate of the notes after giving effect to the amortization of financing costs is 4.1%. The net proceeds from this issuance were primarily used to redeem Forestar's $350 million principal amount of 8.0% senior notes due 2024 in May 2021. The redemption price of $365.6 million included a call premium of $14.0 million and accrued and unpaid interest of $1.6 million. Forestar recognized an $18.1 million loss on extinguishment of debt upon redemption of the notes. Forestar also has $300 million principal amount of 5.0% senior notes that mature March 1, 2028. The annual effective interest rate of the notes after giving effect to the amortization of financing costs is 5.2%. Forestar's senior notes may be redeemed prior to maturity, subject to certain limitations and premiums defined in the indenture agreements.

Forestar's revolving credit facility and its senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the Company's homebuilding debt. At September 30, 2021, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility and senior note obligations.

Effective April 30, 2020, Forestar's Board of Directors authorized the repurchase of up to $30 million of Forestar's debt securities. The authorization has no expiration date. All of the $30 million authorization was remaining at September 30, 2021.

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. The total capacity of the facility is $1.4 billion; however, the capacity automatically increases during certain higher volume periods and can be further increased through additional commitments. The total capacity of the facility at September 30, 2021 was $1.8 billion, and its maturity date is February 18, 2022.

As of September 30, 2021, $1.9 billion of mortgage loans held for sale with a collateral value of $1.9 billion were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling $362.4 million, DHI Mortgage had an obligation of $1.5 billion outstanding under the mortgage repurchase facility at September 30, 2021 at a 2.1% 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 leverage ratio and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At September 30, 2021, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

NOTE E – CAPITALIZED INTEREST

The following table summarizes the Company's interest costs incurred, capitalized and expensed during the years ended September 30, 2021, 2020 and 2019:

	Year Ended September 30,		
	2021	2020	2019
		(In millions)	
Capitalized interest, beginning of year	$ 207.7	$ 180.1	$ 162.7
Interest incurred (1)	152.2	153.3	140.2
Interest charged to cost of sales	(142.2)	(125.7)	(122.8)
Capitalized interest, end of year	$ 217.7	$ 207.7	$ 180.1

(1) Interest incurred includes interest on the Company's mortgage repurchase facility of $17.0 million, $19.1 million and $16.1 million in fiscal 2021, 2020 and 2019, respectively. Also included in interest incurred is Forestar interest of $41.6 million, $41.2 million and $19.4 million in fiscal 2021, 2020 and 2019, respectively.

NOTE F – PROPERTY AND EQUIPMENT

The Company's property and equipment balances and the related accumulated depreciation at September 30, 2021 and 2020 are summarized below.

	September 30,	
	2021	2020
	(In millions)	
Homebuilding		
Buildings and improvements	$ 299.5	$ 267.4
Model home furniture	134.1	134.0
Office furniture and equipment	113.7	108.1
Land	32.6	32.3
Single-family rental properties (1)		
Single-family rental properties	—	68.1
Land	—	19.1
Total single-family rental properties	—	87.2
Accumulated depreciation	(276.6)	(256.2)
Total homebuilding	303.3	372.8
Other Businesses		
Multi-family rental properties (1)		
Multi-family rental properties	—	173.8
Land	—	58.3
Total multi-family rental properties	—	232.1
Energy related assets	79.0	69.7
Office furniture and equipment	15.9	15.6
Land	16.1	19.7
Accumulated depreciation	(28.4)	(28.2)
Total other businesses	82.6	308.9
Forestar, net	2.9	1.1
Financial services, net	3.5	3.9
Rental, net	0.6	—
Eliminations	—	(3.0)
Property and equipment, net	$ 392.9	$ 683.7

(1) Single-family and multi-family rental property assets totaling $415.8 million and $425.1 million, respectively, are recorded as rental property inventory at September 30, 2021.

Depreciation expense was $73.3 million, $69.4 million and $66.1 million in fiscal 2021, 2020 and 2019, respectively.

NOTE G – MORTGAGE LOANS

Mortgage Loans Held for Sale and Related Derivatives

Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. The Company typically sells the servicing rights for the majority of loans when the loans are sold. Servicing rights retained are typically sold within six months of loan origination. At September 30, 2021, mortgage loans held for sale had an aggregate carrying value of $2.03 billion and an aggregate outstanding principal balance of $1.97 billion. At September 30, 2020, mortgage loans held for sale had an aggregate carrying value of $1.53 billion and an aggregate outstanding principal balance of $1.46 billion. During the years ended September 30, 2021, 2020 and 2019, mortgage loans originated totaled $16.0 billion, $12.2 billion and $8.7 billion, respectively, and mortgage loans sold totaled $15.5 billion, $11.8 billion and $8.4 billion, respectively. The Company had gains on sales of loans and servicing rights of $619.1 million, $437.2 million and $319.4 million during the years ended September 30, 2021, 2020 and 2019, respectively. Net gains on sales of loans and servicing rights are included in revenues in the consolidated statements of operations. During fiscal 2021, approximately 52% of the Company's mortgage loans were sold directly to Fannie Mae or into securities backed by Ginnie Mae, and 41% were sold to two other major financial entities.

To manage the interest rate risk inherent in its mortgage operations, the Company hedges its risk using derivative instruments, generally forward sales of mortgage-backed securities (MBS), which are referred to as "hedging instruments" in the following discussion. The Company does not enter into or hold derivatives for trading or speculative purposes.

Newly originated loans that have been closed but not committed to third-party purchasers are hedged to mitigate the risk of changes in their fair value. Hedged loans are committed to third-party purchasers typically within three days after origination. The notional amounts of the hedging instruments used to hedge mortgage loans held for sale may vary in relationship to the underlying loan amounts, depending on the movements in the value of each hedging instrument relative to the value of the underlying mortgage loans. The fair value change related to the hedging instruments generally offsets the fair value change in the mortgage loans held for sale. The net fair value change, which for the years ended September 30, 2021, 2020 and 2019 was not significant, is recognized in revenues in the consolidated statements of operations. At September 30, 2021 and 2020, the Company's mortgage loans held for sale that were not committed to third-party purchasers totaled $1.3 billion and $1.2 billion, respectively.

The Company also uses hedging instruments as part of a program to offer below market interest rate financing to its homebuyers. At September 30, 2021 and 2020, the Company had MBS totaling $834.6 million and $1.1 billion, respectively, that did not yet have interest rate lock commitments (IRLCs) or closed loans created or assigned and recorded an asset of $1.1 million at September 30, 2021 and a liability of $5.3 million at September 30, 2020 for the fair value of such MBS position.

Loan Commitments and Related Derivatives

The Company is party to IRLCs, which are extended to borrowers who have applied for loan funding and meet defined credit and underwriting criteria. At September 30, 2021 and 2020, the notional amount of IRLCs, which are accounted for as derivative instruments recorded at fair value, totaled $1.5 billion and $1.8 billion, respectively.

The Company manages interest rate risk related to its IRLCs through the use of best-efforts whole loan delivery commitments and hedging instruments. These instruments are considered derivatives in an economic hedge and are accounted for at fair value with gains and losses recognized in revenues in the consolidated statements of operations. At September 30, 2021 and 2020, the notional amount of best-efforts whole loan delivery commitments totaled $88.8 million and $84.6 million, respectively, and the notional amount of hedging instruments related to IRLCs not yet committed to purchasers totaled $1.4 billion and $1.6 billion, respectively.

Other Mortgage Loans and Loss Reserves

Mortgage loans are sold with limited recourse provisions derived from industry-standard representations and warranties in the relevant agreements. These representations and warranties primarily involve the absence of misrepresentations by the borrower or other parties, the appropriate underwriting of the loan and in some cases, a required minimum number of payments to be made by the borrower. The Company generally does not retain any other continuing interest related to mortgage loans sold in the secondary market. The majority of other mortgage loans consists of loans repurchased due to these limited recourse obligations. Typically, these loans are impaired, and some result in real estate owned through the foreclosure process. At September 30, 2021 and 2020, the Company's total other mortgage loans and real estate owned, before loss reserves, totaled $15.0 million and $14.9 million, respectively.

The Company has recorded reserves for estimated losses on other mortgage loans, real estate owned and future loan repurchase obligations due to the limited recourse provisions, all of which are recorded as reductions of revenue. The loss reserve for loan repurchase and settlement obligations is estimated based on historical experience, analysis of the volume of mortgages originated, discussions with mortgage purchasers and current housing and credit market conditions, as well as known and projected mortgage loan repurchase requests. The reserve balances at September 30, 2021 and 2020 totaled $5.1 million and $8.9 million, respectively.

Other mortgage loans and real estate owned net of the related loss reserves are included in other assets, while loan repurchase obligations are included in accrued expenses and other liabilities in the Company's consolidated balance sheets.

NOTE H – INCOME TAXES

Income Tax Expense

The components of the Company's income tax expense are as follows:

	Year Ended September 30,		
	2021	2020	2019
		(In millions)	
Current tax expense:			
Federal	$ 978.1	$ 484.0	$ 407.3
State	197.0	104.4	79.3
	1,175.1	588.4	486.6
Deferred tax expense (benefit):			
Federal	(12.7)	20.0	13.9
State	2.7	(5.9)	6.2
	(10.0)	14.1	20.1
Total income tax expense	$ 1,165.1	$ 602.5	$ 506.7

The Company's effective tax rate was 21.8%, 20.2% and 23.8% in fiscal 2021, 2020 and 2019, respectively. The effective tax rates for all years include an expense for state income taxes and tax benefits related to stock-based compensation. The effective tax rates for fiscal 2021 and 2020 include a reduction of 2.2% and 3.1%, respectively, for tax benefits related to the federal energy efficient homes tax credit. The effective tax rate for fiscal 2020 also includes a reduction of 0.4% for a tax benefit related to the release of a valuation allowance against the Company's state deferred tax assets.

Reconciliation of Expected Income Tax Expense

Differences between income tax expense and tax computed by applying the federal statutory rate of 21% to income before income taxes during each year is due to the following:

	Year Ended September 30,		
	2021	2020	2019
		(In millions)	
Income taxes at federal statutory rate	$ 1,124.8	$ 626.4	$ 446.3
Increase (decrease) in tax resulting from:			
State income taxes, net of federal benefit	166.9	79.1	69.1
Valuation allowance	(3.3)	(11.2)	(0.2)
Tax credits	(116.3)	(93.4)	(1.6)
Excess tax benefit from stock-based compensation	(38.4)	(22.3)	(16.1)
Tax contingencies	(6.0)	8.9	—
Other	37.4	15.0	9.2
Total income tax expense	$ 1,165.1	$ 602.5	$ 506.7

Deferred Income Taxes

Deferred tax assets and liabilities reflect the tax consequences of temporary differences between the financial statement bases of assets and liabilities and their tax bases, tax losses and credit carryforwards. Components of deferred income taxes are summarized as follows:

	September 30,	
	2021	2020
	(In millions)	
Deferred tax assets:		
Inventory costs	$ 63.5	$ 37.6
Inventory impairments	12.7	21.5
Warranty and construction defect costs	190.5	156.7
Net operating loss carryforwards	11.7	17.5
Tax credit carryforwards	1.6	2.1
Incentive compensation plans	77.5	68.3
Other	15.6	15.6
Total deferred tax assets	373.1	319.3
Valuation allowance	(4.2)	(7.5)
Total deferred tax assets, net of valuation allowance	368.9	311.8
Deferred tax liabilities:		
Deferral of profit on home closings	166.7	131.9
Depreciation of fixed assets	14.4	19.0
Other	32.5	16.0
Total deferred tax liabilities	213.6	166.9
Deferred income taxes, net	$ 155.3	$ 144.9

D.R. Horton has $10.3 million of tax benefits for state net operating loss (NOL) carryforwards that expire at various times depending on the tax jurisdiction. Of the total amount, $2.9 million of the tax benefits expire over the next ten years and the remaining $7.4 million expire from fiscal years 2032 to 2041. Forestar has $1.4 million of tax benefits for state NOL carryforwards that expire at various times depending on the tax jurisdiction.

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.

Valuation Allowance

The Company has a valuation allowance of $4.2 million and $7.5 million at September 30, 2021 and 2020, respectively, related to state deferred tax assets for NOL carryforwards that are more likely than not to expire before being realized. 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.

Unrecognized Tax Benefits

Unrecognized tax benefits are the differences between tax positions taken or expected to be taken in a tax return and the benefits recognized in the financial statements. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for fiscal 2021 and 2020 is as follows:

	Year Ended September 30,	
	2021	2020
	(In millions)	
Unrecognized tax benefits, beginning of year	$ 8.9	$ —
Additions attributable to tax positions taken in the current year	1.5	8.9
Additions attributable to tax positions taken in prior years	—	—
Settlements	(7.5)	—
Unrecognized tax benefits, end of year	$ 2.9	$ 8.9

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is $2.9 million. The Company had no accrued interest or penalties related to unrecognized tax benefits at September 30, 2021. The Company classifies interest expense and penalties on income taxes as income tax expense.

Regulations and Legislation

D.R. Horton is subject to federal income tax and state income tax in multiple jurisdictions. The statute of limitations for D.R. Horton's major tax jurisdictions remains open for examination for fiscal years 2018 through 2021. A federal refund claim related to the retroactive extension of energy efficient homes tax credits for fiscal 2018 is currently under audit by the Internal Revenue Service. D.R. Horton is under audit by various states, however, the Company is not aware of any significant findings by the state taxing authorities.

Forestar is subject to federal income tax and state income tax in multiple jurisdictions. The statute of limitations for Forestar's major tax jurisdictions remains open for examination for tax years 2016 through 2021. Forestar is not currently under audit for federal or state income taxes.

NOTE I – EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share.

	Year Ended September 30,		
	2021	2020	2019
		(In millions)	
Numerator:			
Net income attributable to D.R. Horton, Inc.	$ 4,175.8	$ 2,373.7	$ 1,618.5
Denominator:			
Denominator for basic earnings per share — weighted average common shares	361.1	365.5	372.6
Effect of dilutive securities:			
Employee stock awards	4.7	4.7	4.8
Denominator for diluted earnings per share — adjusted weighted average common shares	365.8	370.2	377.4
Basic net income per common share attributable to D.R. Horton, Inc.	$ 11.56	$ 6.49	$ 4.34
Diluted net income per common share attributable to D.R. Horton, Inc.	$ 11.41	$ 6.41	$ 4.29

NOTE J – STOCKHOLDERS' EQUITY

D.R. Horton has an automatically effective universal shelf registration statement, filed with the SEC in July 2021, registering debt and equity securities that it may issue from time to time in amounts to be determined. At September 30, 2021, the Company had 397,190,100 shares of common stock issued and 356,015,843 shares outstanding. No shares of preferred stock were issued or outstanding.

At September 30, 2021, Forestar had an effective shelf registration statement filed with the SEC in September 2018, registering $500 million of equity securities, of which $100 million was reserved for sales under its at-the-market equity offering program. During fiscal 2021, Forestar issued 1.4 million shares of common stock under its at-the-market equity offering program for proceeds of $33.4 million, net of commissions and other issuance costs. At September 30, 2021, $359.9 million remained available for issuance under Forestar's shelf registration statement, of which $65.6 million was reserved for sales under its at-the-market equity offering program. In October 2021, after the expiration of Forestar's existing registration statement and at-the-market equity offering program, a new shelf registration statement became effective, registering $750 million of equity securities.

In April 2021, the Board of Directors authorized the repurchase of up to $1.0 billion of the Company's common stock, replacing the prior authorization. The authorization has no expiration date. During fiscal 2021, the Company repurchased 10.4 million shares of its common stock for $874.0 million. At September 30, 2021, there was $546.2 million remaining on the repurchase authorization.

The Board of Directors approved and paid quarterly cash dividends of $0.20 per common share in fiscal 2021 and $0.175 per common share in fiscal 2020. In October 2021, the Board of Directors approved a quarterly cash dividend of $0.225 per common share, payable on December 15, 2021, to stockholders of record on December 6, 2021.

NOTE K – EMPLOYEE BENEFIT PLANS

The Company offers its employees a comprehensive compensation and benefits package, which includes a broad range of benefits, including medical, dental and vision healthcare insurance and paid parental leave. In addition to base pay, eligible employees may participate in the Company's 401(k) plan, employee stock purchase plan, short-term incentive bonus program and/or its stock compensation plans, as described below.

Deferred Compensation Plans

The Company has a 401(k) plan for all employees who have been with the Company for a period of six months or more. The Company matches portions of employees' voluntary contributions. The Company recorded $30.3 million, $23.4 million and $21.7 million of expense for matching contributions in fiscal 2021, 2020 and 2019, respectively.

The Company's Supplemental Executive Retirement Plan (SERP) is a non-qualified deferred compensation program that provides benefits payable to certain management employees upon retirement, death or termination of employment. Under the SERP, the Company accrues an unfunded benefit based on a percentage of the eligible employees' salaries, as well as an interest factor based upon a predetermined formula. The Company's liabilities related to the SERP were $50.4 million and $44.5 million at September 30, 2021 and 2020, respectively. The Company recorded $7.0 million, $6.5 million and $5.8 million of expense for this plan in fiscal 2021, 2020 and 2019, respectively.

The Company has a deferred compensation plan available to a select group of employees which allows participating employees to contribute compensation into the plan on a before tax basis and defer income taxation on the contributions until the funds are withdrawn from the plan. The participating employees designate investments for their contributions; however, the Company is not required to invest the contributions in the designated investments. The Company's net liabilities related to the deferred compensation plan were $124.5 million and $91.0 million at September 30, 2021 and 2020, respectively. The Company records as expense the amount that the employee contributions would have earned had the funds been invested in the designated investments. Related to this plan, the Company recorded expense of $21.7 million, $5.3 million and $2.9 million in fiscal 2021, 2020 and 2019, respectively.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan provides eligible employees the opportunity to purchase common stock of the Company at a discounted price of 85% of the fair market value of the stock on the designated dates of purchase. The price to eligible employees may be further discounted depending on the average fair market value of the stock during the period and certain other criteria. Under the terms of the plan, the total fair market value of common stock that an eligible employee may purchase each year is limited to the lesser of 15% of the employee's annual compensation or $25,000. Under the plan, employees purchased 112,995 shares for $7.5 million in fiscal 2021, 131,348 shares for $5.6 million in fiscal 2020 and 141,661 shares for $4.6 million in fiscal 2019. At September 30, 2021, the Company had 2.7 million shares of common stock reserved for issuance pursuant to the Employee Stock Purchase Plan.

Incentive Bonus Plan

The Company's Incentive Bonus Plan provides for the Compensation Committee to award short-term performance bonuses to senior management based upon the level of achievement of certain criteria. For fiscal 2021, 2020 and 2019, the Compensation Committee approved awards whereby certain executive officers could earn performance bonuses based upon percentages of the Company's pre-tax income. Compensation expense related to these plans was $61.6 million, $34.3 million and $24.4 million in fiscal 2021, 2020 and 2019, respectively.

Stock-Based Compensation

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). At September 30, 2021, the Company had 11.9 million shares of common stock reserved for issuance and 7.0 million shares available for future grants under the Stock Incentive Plan.

Time-Based Restricted Stock Unit (RSU) Equity Awards

Time-based RSUs represent the contingent right to receive one share of the Company's common stock if the vesting conditions are satisfied. The time-based RSUs have no dividend or voting rights during the vesting period.

During fiscal 2021, 2020 and 2019, time-based RSUs were granted to the Company's executive officers, other key employees and non-management directors (collectively, approximately 1,030, 960 and 900 recipients, respectively). These awards vest annually in equal installments over periods of three to five years.

The following table provides additional information related to time-based RSU activity during fiscal 2021, 2020 and 2019. The number of restricted stock units vested includes shares of common stock withheld by the Company on behalf of employees to satisfy the tax withholding requirements.

	Year Ended September 30,					
	2021		2020		2019	
	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	4,725,701	$ 34.79	4,889,534	$ 33.01	4,797,922	$ 31.77
Granted	856,615	83.13	1,657,935	35.98	1,796,200	33.75
Vested	(1,644,263)	33.26	(1,651,840)	30.85	(1,430,826)	29.83
Cancelled	(120,788)	39.16	(169,928)	33.24	(273,762)	32.82
Outstanding at end of year	3,817,265	$ 46.16	4,725,701	$ 34.79	4,889,534	$ 33.01

The total fair value of shares vested on the vesting date during fiscal 2021, 2020 and 2019 was $131.3 million, $95.6 million and $56.9 million, respectively. For fiscal 2021, 2020 and 2019, compensation expense related to time-based RSUs was $56.5 million, $50.6 million and $51.8 million, respectively. At September 30, 2021, there was $130.3 million of unrecognized compensation expense related to unvested time-based RSU awards. This expense is expected to be recognized over a weighted average period of 2.6 years.

Performance-Based Restricted Stock Unit (RSU) Equity Awards

During fiscal 2021, 2020 and 2019, performance-based RSU equity awards that vest at the end of three-year performance periods were granted to the Company's executive officers. 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 0% to 200% of the number of units granted. The performance criteria are total shareholder return, return on investment, SG&A expense containment and gross profit. Each of these performance-based RSUs represents the contingent right to receive one share of the Company's common stock if the vesting conditions and performance criteria are satisfied. The performance-based RSUs have no dividend or voting rights during the performance period. Compensation expense related to these grants is 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.

The following table provides additional information related to the performance-based RSUs outstanding at September 30, 2021.

Grant Date	Vesting Date	Target Number of Performance Units	Grant Date Fair Value per Unit	Compensation Expense Year Ended September 30, 2021	2020	2019
				(In millions)		
November 2018	September 2021	360,000	$ 37.75	$ 7.2	$ 6.7	$ 6.1
November 2019	September 2022	360,000	52.54	10.1	9.3	—
November 2020	September 2023	360,000	70.60	12.5	—	—
				$ 29.8	$ 16.0	$ 6.1

In October 2021, the Compensation Committee approved the issuance of the performance-based RSUs that vested in September 2021 in the form of 630,000 shares of common stock to satisfy the awards.

Stock Options

Stock options are granted at exercise prices which equal the market value of the Company's common stock at the date of the grant. The options outstanding at September 30, 2021 are all exercisable and expire 10 years after the dates on which they were granted.

The Company did not grant stock options during fiscal 2021, 2020 or 2019. The following table provides information related to stock option activity during those years.

	Year Ended September 30,					
	2021		2020		2019	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,224,415	$ 19.94	3,184,157	$ 19.53	5,856,959	$ 17.25
Exercised	(1,108,639)	16.02	(959,742)	18.58	(2,634,802)	14.47
Cancelled or expired	—	—	—	—	(38,000)	18.98
Outstanding at end of year	1,115,776	$ 23.84	2,224,415	$ 19.94	3,184,157	$ 19.53
Exercisable at end of year	1,115,776	$ 23.84	2,224,415	$ 19.94	3,184,157	$ 19.53

The aggregate intrinsic value of options exercised during fiscal 2021, 2020 and 2019 was $82.5 million, $41.2 million and $70.6 million, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the option exercise price.

The aggregate intrinsic value of options outstanding and exercisable at September 30, 2021 was $67.1 million. Exercise prices for options outstanding at September 30, 2021 ranged from $23.57 to $23.86. The weighted average remaining contractual lives of options outstanding and exercisable at September 30, 2021 is 2.1 years.

NOTE L – COMMITMENTS AND CONTINGENCIES

Warranty Claims

The Company provides its homebuyers with warranties for defects in structural elements, mechanical systems and other construction components of the home. Warranty liabilities are established by charging cost of sales for each home delivered based on management's estimate of expected warranty-related costs and by accruing for existing warranty claims. 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. The estimation of these costs is subject to a high degree of variability due to uncertainties related to these factors. Due to the high degree of judgment required in establishing the liability for warranty claims, actual future costs 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 warranty liability.

Changes in the Company's warranty liability during fiscal 2021 and 2020 were as follows:

	September 30,	
	2021	2020
	(In millions)	
Warranty liability, beginning of year	$ 310.2	$ 247.3
Warranties issued	154.5	114.4
Changes in liability for pre-existing warranties	3.8	25.5
Settlements made	(92.2)	(77.0)
Warranty liability, end of year	$ 376.3	$ 310.2

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 $577.5 million and $473.8 million at September 30, 2021 and 2020, 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 September 30, 2021 and 2020. Expenses related to the Company's legal contingencies were $72.4 million, $64.4 million and $15.3 million in fiscal 2021, 2020 and 2019, respectively.

The Company's reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. As of September 30, 2021, no individual existing claim was material to the Company's financial statements. The Company has closed a significant number of homes during recent years and may be subject to future construction defect claims on these homes. Although regulations vary from state to state, construction defect issues can generally be reported for up to ten years after the home has closed in many states in which the Company operates. Historical data and trends regarding the frequency of claims incurred and the costs to resolve claims relative to the types of products and markets where the Company operates are used to estimate the construction defect liabilities for both existing and anticipated future claims. These estimates are subject to ongoing revision as the circumstances of individual pending claims and historical data and trends change. Adjustments to estimated reserves are recorded in the accounting period in which the change in estimate occurs.

Historical trends in construction defect claims have been inconsistent, and the Company believes they may continue to fluctuate. The Company also believes that fluctuations in housing market conditions can affect the frequency and cost of construction defect claims. If the ultimate resolution of construction defect claims resulting from the Company's home closings in prior years varies from current expectations, it could significantly change the Company's estimates regarding the frequency and timing of claims incurred and the costs to resolve existing and anticipated future claims, which would impact the construction defect reserves in the future. If the frequency of claims incurred or costs of existing and future legal claims significantly exceed the Company's current estimates, they will have a significant negative impact on its future earnings and liquidity.

Changes in the Company's legal claims reserves during fiscal 2021 and 2020 were as follows:

	September 30,	
	2021	2020
	(In millions)	
Reserves for legal claims, beginning of year	$ 473.8	$ 434.7
Increase in reserves	131.8	83.2
Payments	(28.1)	(44.1)
Reserves for legal claims, end of year	$ 577.5	$ 473.8

In the majority of states in which it operates, the Company generally has, and requires the majority of the subcontractors it uses to have, general liability insurance which includes construction defect coverage. The Company's general liability insurance policies protect it against a portion of its risk of loss from construction defect and other claims and lawsuits. The Company estimates and records receivables under these policies 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. However, because the self-insured retentions under these policies are significant, the Company anticipates it will largely be self-insured. The Company's estimated insurance receivables from estimated losses for pending legal claims and anticipated future claims related to previously closed homes totaled $109.5 million and $81.2 million at September 30, 2021 and 2020, respectively, and are included in other assets in the consolidated balance sheets. 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.

In some states where the Company believes it is too difficult or expensive for its subcontractors to obtain general liability insurance, the Company has waived its normal subcontractor general liability insurance requirements to obtain lower costs from subcontractors. In these states, the Company purchases insurance policies from either third-party carriers or its 100% owned captive insurance subsidiary and names certain subcontractors as additional insureds. The policies issued by the captive insurance subsidiary and the policies issued on or after June 1, 2020 by third-party carriers essentially represent self-insurance of these risks by the Company.

The Company is self-insured for the deductible amounts under its workers' compensation insurance policies. The deductibles vary by policy year, but in no years exceed $0.5 million per occurrence. The deductible for the 2020, 2021 and 2022 policy years is $0.5 million per occurrence.

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. At September 30, 2021, the Company had total deposits of $1.1 billion, consisting of cash deposits of $989.3 million and promissory notes and surety bonds of $79.8 million, related to contracts to purchase land and lots with a total remaining purchase price of approximately $15.5 billion. The majority of land and lots under contract are currently expected to be purchased within three years. Of these amounts, $151.0 million of the deposits related to contracts with Forestar to purchase land and lots with a remaining purchase price of $1.6 billion. A limited number of the homebuilding land and lot purchase contracts at September 30, 2021, representing $100.0 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 $100.0 million remaining purchase price subject to specific performance provisions, $67.8 million related to contracts between the homebuilding segment and Forestar.

During fiscal 2021 and 2020, Forestar reimbursed the homebuilding segment $30.8 million and $27.0 million, respectively, for previously paid earnest money and $61.3 million and $36.3 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.

Other Commitments

At September 30, 2021, the Company had outstanding surety bonds of $2.3 billion and letters of credit of $247.4 million to secure performance under various contracts. Of the total letters of credit, $187.1 million were issued under the homebuilding revolving credit facility and $60.3 million were issued under Forestar's revolving credit facility.

The Company leases office space and equipment under non-cancelable operating leases. At September 30, 2021, the future minimum annual lease payments under these agreements are as follows (in millions):

Fiscal 2022	$ 18.5
Fiscal 2023	11.1
Fiscal 2024	5.7
Fiscal 2025	2.7
Fiscal 2026	1.2
Thereafter	—
	$ 39.2

Rent expense was $31.7 million, $31.5 million and $30.5 million for fiscal 2021, 2020 and 2019, respectively.

NOTE M – OTHER ASSETS, ACCRUED EXPENSES AND OTHER LIABILITIES

The Company's other assets at September 30, 2021 and 2020 were as follows:

	September 30,	
	2021	2020
	(In millions)	
Earnest money and refundable deposits	$ 1,079.8	$ 657.1
Insurance receivables	109.5	81.2
Other receivables	153.6	143.1
Prepaid assets	51.6	46.0
Contract assets - insurance agency commissions	58.6	47.1
Lease right of use assets	35.6	34.7
Interest rate lock commitments	17.9	31.3
Margin deposits	0.9	16.2
Mortgage servicing rights	4.1	17.1
Mortgage hedging instruments and commitments	8.7	5.3
Other	40.3	34.6
	$ 1,560.6	$ 1,113.7

The Company's accrued expenses and other liabilities at September 30, 2021 and 2020 were as follows:

	September 30,	
	2021	2020
	(In millions)	
Reserves for legal claims	$ 577.5	$ 473.8
Employee compensation and related liabilities	492.1	376.1
Warranty liability	376.3	310.2
Customer deposits	193.4	93.1
Inventory related accruals	261.2	93.9
Federal and state income tax liabilities	88.2	42.6
Accrued property taxes	51.0	44.1
Lease liabilities	37.0	37.0
Accrued interest	31.5	35.3
Mortgage hedging instruments and commitments	1.7	16.5
Other	100.4	84.4
	$ 2,210.3	$ 1,607.0

NOTE N – FAIR VALUE MEASUREMENTS

Fair value measurements are used for the Company's mortgage loans held for sale, mortgage servicing rights, IRLCs and other derivative instruments on a recurring basis and are used for inventories, other mortgage loans, rental properties and real estate owned on a nonrecurring basis, when events and circumstances indicate that the carrying value is not recoverable. The fair value hierarchy and its application to the Company's assets and liabilities is as follows:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities. The Company does not currently have any assets or liabilities measured at fair value using Level 1 inputs.

- Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market. The Company's assets and liabilities measured at fair value using Level 2 inputs on a recurring basis are as follows:

  - *Mortgage loans held for sale* - The fair value of these loans is generally calculated by reference to quoted prices in secondary markets for commitments to sell mortgage loans with similar characteristics. Closed mortgage loans are typically sold shortly after origination, which limits exposure to nonperformance by loan buyer counterparties to a short time period. In addition, the Company actively monitors the financial strength of its counterparties.

  - *IRLCs* - The fair value of IRLCs is calculated by reference to quoted prices in secondary markets for commitments to sell mortgage loans with similar characteristics. These valuations do not contain adjustments for expirations as any expired commitments are excluded from the fair value measurement. The Company generally only issues IRLCs for products that meet specific purchaser guidelines. Should any purchaser become insolvent, the Company would not be required to close the transaction based on the terms of the commitment. Since not all IRLCs will become closed loans, the Company adjusts its fair value measurements for the estimated amount of IRLCs that will not close.

  - *Loan sale commitments and hedging instruments* - The fair values of best-efforts and mandatory loan sale commitments and derivative instruments such as forward sales of MBS that are utilized as hedging instruments are calculated by reference to quoted prices for similar assets. The Company mitigates exposure to nonperformance risk associated with derivative instruments by limiting the number of counterparties and actively monitoring their financial strength and creditworthiness. Further, the Company's derivative contracts typically have short-term durations with maturities from one to four months. Accordingly, the Company's risk of nonperformance relative to its derivative positions is not significant.

The Company's assets measured at fair value using Level 2 inputs on a nonrecurring basis are a limited number of mortgage loans held for sale with some degree of impairment affecting their marketability and are reported at the lower of carrying value or fair value. When available, fair value is determined by reference to quoted prices in the secondary markets for such assets.

After consideration of nonperformance risk, no additional adjustments were made to the fair value measurements of mortgage loans held for sale, IRLCs or hedging instruments.

- Level 3 – Valuation is typically derived from model-based techniques in which at least one significant input is unobservable and based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

  The Company's assets measured at fair value using Level 3 inputs on a recurring basis are its mortgage servicing rights and a limited number of mortgage loans held for sale with some degree of impairment affecting their marketability and for which reference to quoted prices in the secondary markets is not available.

  The Company's assets measured at fair value using Level 3 inputs that are typically reported at the lower of carrying value or fair value on a nonrecurring basis are as follows:

  - *Inventory held and used* - In assessing impairment indicators of of its inventory held and used, the Company performs an analysis of the undiscounted cash flows estimated to be generated by those assets. The most significant factors used to estimate undiscounted future cash flows include pricing and incentive levels actually realized by the community, the rate at which the homes are sold and the costs incurred to develop the lots and construct the homes. Inventory held and used measured at fair value represents those communities for which the estimated undiscounted cash flows are less than their carrying amounts and therefore, the Company recorded impairments during the period to record the inventory at fair value calculated based on its discounted estimated future cash flows.

  - *Inventory available for sale* - The factors considered in determining fair values of the Company's land held for sale primarily include actual sale contracts and recent offers received from outside third parties, and may also include prices for land in recent comparable sales transactions and other market analysis. If the estimated fair value less the costs to sell an asset is less than the asset's current carrying value, the asset is written down to its estimated fair value less costs to sell.

  - *Certain mortgage loans held for sale* - A limited number of mortgage loans held for sale have some degree of impairment affecting their marketability. For some of these loans, quoted prices in the secondary market are not available and therefore, a cash flow valuation model is used to determine fair value.

  - *Certain other mortgage loans, rental properties and real estate owned* - Other mortgage loans include performing and nonperforming mortgage loans, which often become real estate owned through the foreclosure process. The fair values of other mortgage loans, rental properties and real estate owned are determined based on the Company's assessment of the value of the underlying collateral or the value of the property, as applicable. The Company uses different methods to assess the value of the properties, which may include broker price opinions, appraisals or cash flow valuation models.

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2021 and 2020, and the changes in the fair value of the Level 3 assets during fiscal 2021 and 2020.

		Fair Value at September 30, 2021			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
		(In millions)			
Mortgage loans held for sale (1)	Mortgage loans held for sale	$ —	$ 2,009.4	$ 11.7	$ 2,021.1
Mortgage servicing rights (2)	Other assets	—	—	4.1	4.1
Derivatives not designated as hedging instruments (3):					
Interest rate lock commitments (4)	Other assets	—	17.2	—	17.2
Forward sales of mortgage-backed securities	Other assets	—	8.5	—	8.5

		Fair Value at September 30, 2020			
	Balance Sheet Location	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 (1)	Mortgage loans held for sale	—	1,503.2	15.1	1,518.3
Mortgage servicing rights (2)	Other assets	—	—	17.1	17.1
Derivatives not designated as hedging instruments (3):					
Interest rate lock commitments	Other assets	—	31.3	—	31.3
Forward sales of mortgage-backed securities	Other liabilities	—	(16.2)	—	(16.2)

	Level 3 Assets at Fair Value for the Year Ended September 30, 2021						
	Balance at September 30, 2020	Net realized and unrealized gains (losses)	Purchases / Originations	Sales and Settlements	Principal Reductions	Net transfers to (out of) Level 3	Balance at September 30, 2021
	(In millions)						
Debt securities collateralized by residential real estate	$ 3.9	$ —	$ —	$ (3.9)	$ —	$ —	$ —
Mortgage loans held for sale (1)	15.1	0.3	—	(3.3)	—	(0.4)	11.7
Mortgage servicing rights (2)	17.1	(0.2)	24.7	(37.5)	—	—	4.1

	Level 3 Assets at Fair Value for the Year Ended September 30, 2020						
	Balance at September 30, 2019	Net realized and unrealized gains (losses)	Purchases / Originations	Sales and Settlements	Principal Reductions	Net transfers to (out of) Level 3	Balance at September 30, 2020
	(In millions)						
Debt securities collateralized by residential real estate	$ 3.9	$ —	$ —	$ —	$ —	$ —	$ 3.9
Mortgage loans held for sale (1)	9.8	0.2	—	(2.6)	—	7.7	15.1
Mortgage servicing rights (2)	—	1.9	15.2	—	—	—	17.1

(1) 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 September 30, 2021 and 2020 include $11.7 million and $15.1 million, respectively, of loans for which the Company elected the fair value option upon origination and did not sell into the secondary market. Mortgage loans held for sale totaling $7.7 million were transferred to Level 3 during fiscal 2020 due to significant unobservable inputs used in determining the fair value of these loans. 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. Mortgage loans totaling $0.4 million were transferred to Level 2 during fiscal 2021 because their fair value was based on actual quoted prices related to the pending sale of those loans in the secondary market.

(2) Although the majority of the Company's mortgage loans are sold on a servicing-released basis, when the servicing rights are retained, the Company records them at fair value using third-party valuations. The valuation at the time the servicing asset is retained is reflected in the purchases/originations column with subsequent changes in value classified as realized and unrealized gains (losses). The key assumptions used in the valuation, which are generally unobservable inputs, are mortgage prepayment rates, discount rates and delinquency rates, which were 11%, 11% and 6%, respectively, at September 30, 2021.

(3) 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. The net fair value change in fiscal 2021 and 2020 recognized in revenues in the consolidated statements of operations was not significant.

(4) The fair value of interest rate lock commitments at September 30, 2021 reflects $17.9 million of servicing release premiums in other assets and a change in fair value of $0.7 million in other liabilities.

The following table summarizes the Company's assets measured at fair value on a nonrecurring basis at September 30, 2021 and 2020.

	Balance Sheet Location	Fair Value at September 30,			
		2021		2020	
		Level 2	Level 3	Level 2	Level 3
		(In millions)			
Mortgage loans held for sale (1) (2)	Mortgage loans held for sale	$ —	$ 3.8	$ 1.5	$ 2.2
Other mortgage loans (1) (3)	Other assets	—	1.3	0.6	2.0

(1) 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.

(2) 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).

(3) The fair values of other mortgage loans were 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 September 30, 2021 and 2020.

	Carrying Value	Fair Value at September 30, 2021			
		Level 1	Level 2	Level 3	Total
		(In millions)			
Cash and cash equivalents (1)	$ 3,210.4	$ 3,210.4	$ —	$ —	$ 3,210.4
Restricted cash (1)	26.8	26.8	—	—	26.8
Notes payable (2) (3)	5,412.4	—	3,950.9	1,589.3	5,540.2

	Carrying Value	Fair Value at September 30, 2020			
		Level 1	Level 2	Level 3	Total
		(In millions)			
Cash and cash equivalents (1)	$ 3,018.5	$ 3,018.5	$ —	$ —	$ 3,018.5
Restricted cash (1)	21.6	21.6	—	—	21.6
Notes payable (2) (3)	4,283.3	—	3,285.5	1,203.7	4,489.2

(1) 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.

(2) The fair value of the senior notes is determined based on quoted prices, which is classified as Level 2 within the fair value hierarchy.

(3) The fair values of other secured notes and borrowings on the revolving credit facility 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.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 September 30, 2021 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the Securities and Exchange Commission (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 September 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of September 30, 2021.

Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of September 30, 2021, as stated in their report included herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is set forth under the captions *"Proposal One — Election of Directors," "Corporate Governance and Board Matters"* and *"Delinquent Section 16(a) Reports,"* if applicable, in the registrant's definitive Proxy Statement for the 2022 Annual Meeting of Stockholders and incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the captions *"Executive Compensation"* and *"CEO Pay Ratio"* in the registrant's definitive Proxy Statement for the 2022 Annual Meeting of Stockholders and incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes our equity compensation plans as of September 30, 2021.

Plan Category	(a) Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders	6,013,041 (1)	$ 23.84 (2)	8,727,777 (3)
Equity compensation plans not approved by stockholders	—	n/a	—
Total	6,013,041	$ 23.84	8,727,777

(1) Amount includes outstanding stock option and restricted stock unit awards. The number of outstanding performance-based restricted stock unit awards is based on the target number of units granted.

(2) Amount reflects the weighted average exercise price with respect to outstanding stock options and does not take into account outstanding restricted stock units, which do not have an exercise price.

(3) Amount includes 2,714,736 shares reserved for issuance under the Company's Employee Stock Purchase Plan. Under the Employee Stock Purchase Plan, employees purchased 112,995 shares of common stock in fiscal 2021.

The remaining information required by this item is set forth under the caption *"Beneficial Ownership of Common Stock"* in the registrant's definitive Proxy Statement for the 2022 Annual Meeting of Stockholders and incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is set forth under the captions *"Certain Relationships and Related Person Transactions"* and *"Corporate Governance and Board Matters"* in the registrant's definitive Proxy Statement for the 2022 Annual Meeting of Stockholders and incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is set forth under the caption *"Independent Registered Public Accountants"* in the registrant's definitive Proxy Statement for the 2022 Annual Meeting of Stockholders and incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report.

(1) *Financial Statements*

Our consolidated financial statements are included in Part II, Item 8 of this Annual Report on Form 10-K.

(2) *Financial Statement Schedules*

All financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(3) *Exhibits*

The exhibits listed in (b) are filed or incorporated by reference as part of this Annual Report on Form 10-K.

(b) Exhibits

Exhibit Number	Exhibit
2.1	Agreement and Plan of Merger dated June 29, 2017 by and among the Company, Force Merger Sub, Inc. and Forestar Group Inc. (incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on June 29, 2017).
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 (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).
3.2	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 8, 2017).
4.1	See Exhibit 3.1.
4.2	Senior Debt Securities Indenture, dated as of May 1, 2012, between Company and American Stock Transfer & Trust Company, LLC, as Trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on May 4, 2012).
4.3	Second Supplemental Indenture, dated as of September 14, 2012, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as Trustee, relating to the 4.375% Senior Notes due 2022 issued by the Company (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on September 17, 2012).
4.4	Fourth Supplemental Indenture, dated as of February 5, 2013, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as Trustee, relating to the 4.750% Senior Notes due 2023 issued by the Company (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on February 8, 2013).
4.5	Fifth Supplemental Indenture, dated as of February 5, 2013, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as trustee (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on February 8, 2013).
4.6	Sixth Supplemental Indenture, dated as of August 5, 2013, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as Trustee, relating to the 5.750% Senior Notes Due 2023 issued by the Company (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on August 8, 2013).
4.7	Tenth Supplemental Indenture, dated as of December 5, 2017, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on December 5, 2017).

Exhibit Number		Exhibit
4.8		Eleventh Supplemental Indenture, dated as of October 10, 2019, among the Company, the guarantors named therein, American Stock Transfer & Trust Company, LLC, as original trustee, and Branch Banking and Trust Company, as series trustee (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on October 10, 2019).
4.9		Senior Debt Securities Indenture, dated as of October 10, 2019, among the Company and Branch Banking and Trust Company, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on October 10, 2019).
4.10		First Supplemental Indenture, dated as of October 10, 2019, among the Company, the guarantors named therein and Branch Banking and Trust Company, as trustee, relating to the 2.500% Senior Notes Due 2024 issued by the Company (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on October 10, 2019).
4.11		Second Supplemental Indenture, dated as of May 5, 2020, among the Company, the guarantors named therein and Branch Banking and Trust Company, as trustee, relating to the 2.600% Senior Notes Due 2025 issued by the Company (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on May 5, 2020).
4.12		Indenture, dated as of February 25, 2020, by and among Forestar Group Inc., the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of Forestar's Current Report on Form 8-K filed with the SEC on February 25, 2020).
4.13		Third Supplemental Indenture, dated as of October 2, 2020, among the Company, the guarantors named therein and Truist Bank (formerly known as Branch Banking and Trust Company), as trustee, relating to the 1.400% Senior Notes Due 2027 issued by the Company (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2020).
4.14		Description of Securities (incorporated by reference from Exhibit 4.17 to the Company's Annual Report on Form 10-K for the year ended September 30, 2019, filed with the SEC on November 25, 2019).
4.15		Indenture, dated as of April 21, 2021, by and among Forestar Group Inc., the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of Forestar's Current Report on Form 8-K filed with the SEC on April 21, 2021).
4.16		Fourth Supplemental Indenture, dated as of August 5, 2021, among D.R. Horton, Inc., the guarantors named therein and Truist Bank (formerly known as Branch Banking and Trust Company), as trustee, relating to the 1.300% Senior Notes due 2026 of D.R. Horton, Inc. (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed with the SEC on August 5, 2021).
4.17		Twelfth Supplemental Indenture, dated as of August 5, 2021, among D.R. Horton, Inc., the guarantors named therein and American Stock Transfer & Trust Company, LLC, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed with the SEC on August 5, 2021).
4.18		Fifth Supplemental Indenture, dated as of August 5, 2021, among D.R. Horton, Inc., the guarantors named therein and Truist Bank (formerly known as Branch Banking and Trust Company), as trustee (incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed with the SEC on August 5, 2021).
10.1		Form of Indemnification Agreement between the Company and each of its directors and executive officers and schedules of substantially identical documents (incorporated by reference from Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1995, filed with the SEC on November 22, 1995 (file number 1-14122); Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, filed with the SEC on August 6, 1998; and Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, filed with the SEC on May 15, 2001).
10.2	†	D.R. Horton, Inc. 1991 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the SEC on August 13, 2002).
10.3	†	Amendment No. 1 to 1991 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the SEC on August 13, 2002).

Exhibit Number		Exhibit
10.4	†	Form of Non-Qualified Stock Option Agreement under the D.R. Horton, Inc. 1991 Stock Incentive Plan (Term Vesting) (incorporated by reference from Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Registration No. 3-81856), filed with the SEC on July 22, 1994).
10.5	†	D.R. Horton, Inc. 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.6 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).
10.6	†	D.R. Horton, Inc. 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 26, 2011).
10.7	†	D.R. Horton, Inc. 2006 Stock Incentive Plan, as amended and restated, effective as of December 11, 2014 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 26, 2015).
10.8	†	Form of Non-Qualified Stock Option Agreement under the D.R. Horton, Inc. 2006 Stock Incentive Plan (Employee - Term Vesting 2006 Form) (incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, filed with the SEC on May 8, 2006).
10.9	†	Form of Non-Qualified Stock Option Agreement under the D.R. Horton, Inc. 2006 Stock Incentive Plan (Director - Term Vesting 2006 Form) (incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, filed with the SEC on May 8, 2006).
10.10	†	Form of Non-Qualified Stock Option Agreement (Employee-Term Vesting 2008 Form) pursuant to the Company's 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on February 15, 2008).
10.11	†	Form of Non-Qualified Stock Option Agreement (Outside Director-Term Vesting 2008 Form) pursuant to the Company's 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on February 15, 2008).
10.12	†	Form of Restricted Stock Unit Agreement pursuant to the Company's 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 6, 2010).
10.13	†	Form of Restricted Stock Unit Agreement pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on November 16, 2011).
10.14	†	Form of Restricted Stock Unit Agreement (Outside Director) pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, filed with the SEC on January 29, 2013).
10.15	†	Form of Restricted Stock Unit Agreement (Employees) pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on November 12, 2014).
10.16	†	Form of Time-Based Restricted Stock Unit Agreement (Employees) pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on April 24, 2015).
10.17	†	Form of Stock Award Agreement pursuant to the Company's 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on October 6, 2010).
10.18	†	D.R. Horton, Inc. Supplemental Executive Retirement Plan No. 1 (incorporated by reference from the Company's Transitional Report on Form 10-K for the period from January 1, 1993 to September 30, 1993, filed with the SEC on December 28, 1993 (file number 1-14122)).
10.19	†	D.R. Horton, Inc. Amended and Restated Deferred Compensation Plan (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 16, 2008).
10.20	†	D.R. Horton, Inc. Amended and Restated Supplemental Executive Retirement Plan No. 2 (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 16, 2008).

Exhibit Number		Exhibit
10.21	†	D.R. Horton, Inc. 2018 Incentive Bonus Plan, dated November 6, 2018 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 9, 2018).
10.22	†	Summary of Executive Compensation Notification - Chairman, CEO and COO (fiscal 2021) (incorporated by reference from Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended September 30, 2020, filed with the SEC on November 20, 2020).
10.23	* †	Summary of Executive Compensation Notification - Chairman, CEO and COO (fiscal 2022).
10.24	†	Summary of Executive Compensation Notification - Other Executive Officer - CFO (fiscal 2021) (incorporated by reference from Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended September 30, 2020, filed with the SEC on November 20, 2020).
10.25	* †	Summary of Executive Compensation Notification - Other Executive Officer - CFO (fiscal 2022).
10.26	†	Summary of Director, Committee and Chairperson Compensation (fiscal 2021) (incorporated by reference from Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended September 30, 2020, filed with the SEC on November 20, 2020).
10.27	* †	Summary of Director, Committee and Chairperson Compensation (fiscal 2022).
10.28		Grantor Trust Agreement, dated June 21, 2002, by and between the Company and Wachovia Bank, National Association, as Trustee (incorporated by reference from Exhibit 10.34 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed with the SEC on December 13, 2002).
10.29		Credit Agreement, dated September 7, 2012, among the Company, the Lenders named therein and The Royal Bank of Scotland PLC, as Administrative Agent (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 10, 2012).
10.30		Amendment No.1 to Credit Agreement, dated November 1, 2012, among the Company, The Royal Bank of Scotland PLC, as Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 5, 2012).
10.31		Amendment No. 2 to Credit Agreement, dated August 8, 2013 by and among the Company, The Royal Bank of Scotland PLC, as Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 13, 2013).
10.32		Amendment No. 3 to Credit Agreement, dated August 22, 2014 by and among Company, The Royal Bank of Scotland PLC, as Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 25, 2014).
10.33		Amendment No. 5 to Credit Agreement, dated August 26, 2015 by and among Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 27, 2015).
10.34		Amendment No. 6 to Credit Agreement, dated September 25, 2017 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 28, 2017).
10.35		Amendment No. 7 to Credit Agreement, dated September 25, 2018 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2018).
10.36		Amendment No. 8 to Credit Agreement, dated February 15, 2019 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed with the SEC on April 30, 2019).
10.37		Amendment No. 9 to Credit Agreement, dated October 2, 2019 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 4, 2019).

Exhibit Number	Exhibit
10.38	Second Amended and Restated Master Repurchase Agreement, dated February 27, 2015, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 4, 2015).
10.39	First Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 26, 2016, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 2, 2016).
10.40	Third Amendment to Second Amended and Restated Master Repurchase Agreement, dated September 23, 2016, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2016).
10.41	Fourth Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 24, 2017, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 28, 2017).
10.42	Fifth Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 23, 2018, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 28, 2018).
10.43	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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 22, 2019).
10.44	Seventh Amendment to Second Amended and Restated Master Repurchase Agreement, dated March 26, 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 (incorporated by reference from Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended September 30, 2019, filed with the SEC on November 25, 2019).
10.45	Eighth Amendment to Second Amended and Restated Master Repurchase Agreement, dated June 21, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 26, 2019).
10.46	Ninth Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 21, 2020, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 26, 2020).
10.47	Tenth Amendment to Second Amended and Restated Master Repurchase Agreement, dated May 15, 2020, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 21, 2020).
10.48	364-Day Credit Agreement, dated May 28, 2020, among the Company, the guarantors party thereto, Mizuho Bank, Ltd., as administrative agent, joint book runner, arranger, and a lender, and the other lenders party thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2020).
10.49	Amended and Restated Custody Agreement, dated March 1, 2013, by and between DHI Mortgage Company, Ltd. and U.S. Bank National Association, as Administrative Agent and representative of certain buyers (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 4, 2015).
10.50	Stockholder's Agreement dated June 29, 2017 by and between the Company and Forestar Group Inc. (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 29, 2017).

Exhibit Number	Exhibit
10.51	Master Supply Agreement dated June 29, 2017 by and between the Company and Forestar Group Inc. (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 29, 2017).
10.52	Credit Agreement, dated August 16, 2018, among Forestar Group Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 of Forestar's Current Report on Form 8-K filed with the SEC on August 17, 2018).
10.53	Amendment No. 1 to Credit Agreement, dated October 2, 2019 by and among Forestar Group Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to Forestar's Current Report on Form 8-K filed with the SEC on October 3, 2019).
10.54	Amendment No. 10 to Credit Agreement, dated April 20, 2021 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 22, 2021).
10.55	Amendment No. 2 to Credit Agreement, dated April 16, 2021 by and among Forestar Group Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to Forestar's Current Report on Form 8-K filed with the SEC on April 20, 2021).
10.56	Third Amended and Restated Master Repurchase Agreement, dated February 19, 2021, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 23, 2021).
21.1 *	Subsidiaries of D.R. Horton, Inc.
22.1 *	List of Guarantor Subsidiaries.
23.1 *	Consent of Ernst & Young LLP, Dallas, Texas.
31.1 *	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 *	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS **	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH **	Inline XBRL Taxonomy Extension Schema Document.
101.CAL **	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF **	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB **	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE **	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104 **	Cover Page Interactive Data File (embedded within the Inline XBRL document contained in Exhibit 101).

* Filed or furnished herewith.

** Submitted electronically herewith.

† Management contract or compensatory plan arrangement.

ITEM 16. 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: November 18, 2021

By: /s/ Bill W. Wheat
Bill W. Wheat
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David V. Auld David V. Auld	President and Chief Executive Officer (Principal Executive Officer)	November 18, 2021
/s/ Bill W. Wheat Bill W. Wheat	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	November 18, 2021
/s/ Aron M. Odom Aron M. Odom	Vice President and Controller (Principal Accounting Officer)	November 18, 2021
/s/ Donald R. Horton Donald R. Horton	Chairman of the Board and Director	November 18, 2021
/s/ Barbara K. Allen Barbara K. Allen	Director	November 18, 2021
/s/ Brad S. Anderson Brad S. Anderson	Director	November 18, 2021
/s/ Michael R. Buchanan Michael R. Buchanan	Director	November 18, 2021
/s/ Benjamin S. Carson, Sr. Benjamin S. Carson, Sr.	Director	November 18, 2021
/s/ Michael W. Hewatt Michael W. Hewatt	Director	November 18, 2021
/s/ Maribess L. Miller Maribess L. Miller	Director	November 18, 2021

CORPORATE INFORMATION

D.R. Horton, Inc. (the "Company") constructs and sells homes ranging in price from $150,000 to more than $1,000,000. The Company operates in 98 markets across 31 states in the Northwest, Southwest, South Central, Southeast, East and North regions of the United States, primarily under the names of D.R. Horton, *America's Builder*, Emerald Homes, Express Homes and Freedom Homes. For the year ended September 30, 2021, the Company closed 81,965 homes with an average sales price of $323,300. Founded in 1978, the Company's common stock is included in the S&P 500 Index and is listed on the New York Stock Exchange under the ticker symbol "DHI."

THE BOARD OF DIRECTORS

Donald R. Horton
Chairman

Barbara K. Allen (2)(3)
Former Partner and Housing, Construction and Retailing Analyst of Avondale Partners

Brad S. Anderson (2)
Vice Chair of Cushman & Wakefield
Director of KS StateBank

Michael R. Buchanan (3)
Former Managing Director, National Real Estate Banking Group, Bank of America

Benjamin S. Carson, Sr. (1)
Former Secretary of the U.S. Department of HUD
Retired pediatric neurosurgeon affiliated with the Johns Hopkins Medical Institutions
Director of Covenant Logistics Group, Inc.

Michael W. Hewatt (1)
Former Principal of Hewatt & Associates, CPAs

Maribess L. Miller (1)(2)(3)
Former Partner of PricewaterhouseCoopers
Director of Triumph Bancorp and Zix Corporation

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(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Governance Committee.

Annual Meeting of Stockholders

January 26, 2022
At the corporate offices of D.R. Horton, Inc.
1341 Horton Circle
Arlington, Texas 76011

Investor Relations

Jessica L. Hansen
D.R. Horton, Inc.
1341 Horton Circle
Arlington, Texas 76011
(817) 390-8200

Website

www.drhorton.com

Form 10-K

The Annual Report on Form 10-K of D.R. Horton, Inc. may be accessed through the "Investor Relations" page of our website, or a copy is available upon request to our Investor Relations department at our corporate offices.

Public Debt Ratings

Senior Notes:
BBB+ Fitch Ratings
Baa2 Moody's Investors Service
BBB Standard & Poor's Ratings Services

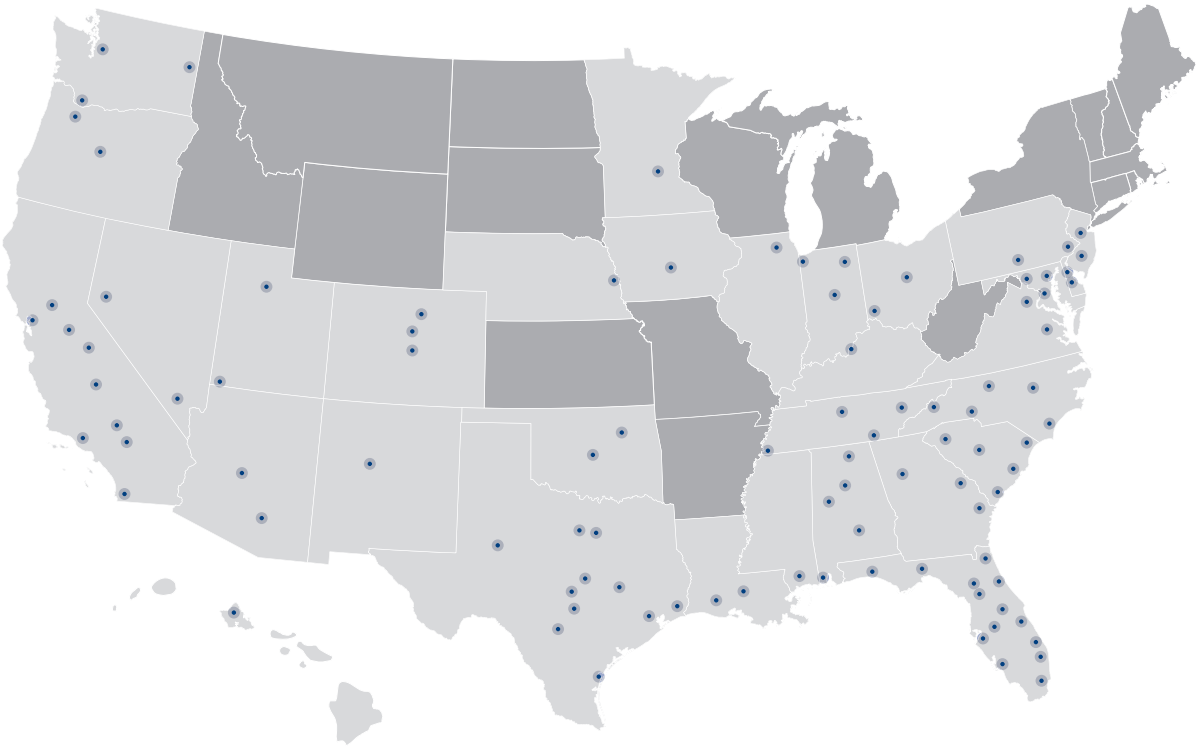
A rating is not a recommendation to buy, sell or hold a security, and ratings are subject to revision at any time by the assigning agency.

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
(800) 937-5449

HOMEBUILDING OPERATIONS

D·R·HORTON
America's Builder



NORTHWEST
Colorado Springs, CO
Denver, CO
Fort Collins, CO
Bend, OR
Portland/Salem, OR
Salt Lake City, UT
St. George, UT
Seattle/Tacoma/Everett/
Olympia, WA
Spokane, WA
Vancouver, WA

SOUTHWEST
Phoenix, AZ
Tucson, AZ
Bakersfield, CA
Bay Area, CA
Fresno, CA
Los Angeles County, CA
Modesto/Merced Stockton, CA
Riverside County, CA
Sacramento, CA
San Bernardino County, CA
San Diego County, CA
Oahu, HI
Las Vegas, NV
Reno, NV
Albuquerque, NM

SOUTH CENTRAL
Oklahoma City, OK
Tulsa, OK
Austin, TX
Beaumont, TX
Bryan/College Station, TX
Corpus Christi, TX
Dallas, TX
Fort Worth, TX
Houston, TX
Killeen/Temple/Waco, TX
Midland/Odessa, TX
New Braunfels/San Marcos, TX
San Antonio, TX

EAST
Atlanta, GA
Augusta, GA
Savannah, GA
Asheville, NC
Charlotte, NC
Greensboro/Winston-Salem, NC
Raleigh/Durham, NC
Wilmington, NC
Charleston, SC
Columbia, SC
Greenville/Spartanburg, SC
Hilton Head, SC
Myrtle Beach, SC
Chattanooga, TN
Knoxville, TN
Memphis, TN
Nashville, TN

SOUTHEAST
Birmingham, AL
Huntsville, AL
Mobile/Baldwin County, AL
Montgomery, AL
Tuscaloosa, AL
Fort Myers/Naples, FL
Gainesville, FL
Jacksonville, FL
Lakeland, FL
Melbourne/Vero Beach, FL
Miami/Fort Lauderdale, FL
Ocala, FL
Orlando, FL
Pensacola/Panama City, FL
Port St. Lucie, FL
Tallahassee, FL
Tampa/Sarasota, FL
Volusia County, FL
West Palm Beach, FL
Baton Rouge, LA
Lake Charles/Lafayette, LA
Gulf Coast, MS

NORTH
Central Delaware
Northern Delaware
Chicago, IL
Fort Wayne, IN
Indianapolis, IN
Northwest Indiana
Des Moines, IA
Louisville, KY
Baltimore, MD
Suburban Washington, D.C.
Western Maryland
Minneapolis/St. Paul, MN
Omaha, NE
Northern New Jersey
Southern New Jersey
Cincinnati, OH
Columbus, OH
Central Pennsylvania
Philadelphia, PA
Northern Virginia
Southern Virginia

D·R·HORTON®
America's Builder

1341 Horton Circle
Arlington, Texas 76011
(817) 390-8200
www.drhorton.com

APPENDIX B

Audited Financial Statements for the fiscal year ended September 30, 2021

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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

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

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the major fund of Leander Municipal Utility District No. 1 (the "District"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these 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.

Member of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants

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 the major fund of the District as of September 30, 2021, 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 or provide any assurance on them.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

February 8, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEANDER MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2021

In accordance with Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), the management of Leander 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, 2021. 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 $215,477, an increase of $190,409 from the previous fiscal year. General Fund revenues were $235,535 and expenditures were $45,126 for the fiscal year ending September 30, 2021.
- *Governmental Activities*: On a government-wide basis for governmental activities, the District had revenues net of expenditures of $190,409 in the current fiscal year. Net position increased from a deficit balance of $55,596 at September 30, 2020 to $134,813 at September 30, 2021.

OVERVIEW OF THE DISTRICT

Leander Municipal Utility District No. 1, 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 August 26, 2013, and confirmed pursuant to an election held within the District on May 10, 2014. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water drainage, 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 contains approximately 296.861 acres and is located in southwestern Williamson County approximately three miles northeast of downtown Leander, Texas, and is wholly within the extraterritorial jurisdiction of the City of Leander.

USING THIS ANNUAL REPORT

This annual report consists of five parts:

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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
	2021	2020	(Decrease)
Current and other assets	$ 220,063	$ 31,845	$ 188,218
Non-current assets	-	-	-
Total Assets	$ 220,063	$ 31,845	$ 188,218
Current liabilities	$ 4,586	$ 6,777	$ (2,191)
Long-term liabilities	80,664	80,664	-
Total Liabilities	$ 85,250	$ 87,441	$ (2,191)
Unrestricted	$ 134,813	$ (55,596)	$ 190,409
Total Net Position	$ 134,813	$ (55,596)	$ 190,409

The District's net position increased by $190,409 during the 2021 fiscal year to $134,813 at September 30, 2021 from the previous year's deficit balance of $55,596.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Revenues and Expenses:

Summary Statement of Activities

	Governmental Activities 2021	Governmental Activities 2020	Change Increase (Decrease)
Property taxes	$ 94,827	$ 35,640	$ 59,187
Drainage fees	140,650	-	140,650
Interest and other	58	104	(46)
Total Revenues	$ 235,535	$ 35,744	$ 199,791
Professional fees	$ 30,450	$ 29,382	$ 1,068
Other	14,676	15,381	(705)
Total Expenses	$ 45,126	$ 44,763	$ 363
Change in Net Position	$ 190,409	$ (9,019)	$ 199,428
Beginning Net Position	(55,596)	(46,577)	(9,019)
Ending Net Position	$ 134,813	$ (55,596)	$ 190,409

Revenues were $235,535 for the fiscal year ended September 30, 2021 while expenses were $45,126. Net position increased $190,409 during the 2021 fiscal year.

For the fiscal year ended September 30, 2021, property tax revenues totaled $94,827. 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 2020 tax year (September 30, 2021 fiscal year) were based upon a current assessed value of $9,482,658 and a tax rate of $1.00 per $100 of assessed valuation. Property taxes levied for the 2019 tax year (September 30, 2020 fiscal year) were based upon a current assessed value of $3,563,971 and a tax rate of $1.00 per $100 of assessed valuation.

The tax rate levied is determined after the District's Board of Directors reviews the General Fund budget requirements and the debt service obligations of the District. The District's primary revenue source is property taxes and drainage fees.

ANALYSIS OF GOVERNMENTAL FUND

Governmental Fund by Year

	2021	2020
Cash and cash equivalent investments	$ 206,969	$ 31,063
Receivables	12,658	-
Prepaid expenditures	436	782
Total Assets	$ 220,063	$ 31,845
Accounts payable	$ 4,586	$ 6,777
Other	-	-
Total Liabilities	$ 4,586	$ 6,777
Nonspendable	$ 436	$ 782
Unassigned	215,041	24,286
Total Fund Balances	$ 215,477	$ 25,068
Total Liabilities and Fund Balances	$ 220,063	$ 31,845

As of September 30, 2021, the District's governmental fund reflected a fund balance of $215,477, a $190,409 increase over the previous year.

BUDGETARY HIGHLIGHTS

The General Fund pays for daily operating expenditures. The Board of Directors adopted the 2021 budget on September 8, 2020. The budget included revenues of $152,800 as compared to expenditures of $79,435 for the 2021 fiscal year. When comparing actual figures to budgeted amounts, the District had a positive net variance of $117,044. 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 the 2021 tax year is approximately $19.1 million. The fiscal year 2022 tax rate (2021 tax year) is $1.00 on each $100 of taxable value. Approximately 65% property tax collected during fiscal year 2022 will fund general operating expenses and 35% will fund debt service obligations.

The adopted budget for fiscal year 2022 projects an operating fund balance increase of $76,789.

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

LEANDER MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2021

	General Fund	Adjustments Note 2	Government - Wide Statement of Net Position
ASSETS			
Cash and cash equivalents:			
Cash	$ 43,989	$ -	$ 43,989
Cash equivalents	162,980	-	162,980
Receivables:			
Drainage fees	10,613	-	10,613
Other	2,045	-	2,045
Prepaid expenditures	436	-	436
TOTAL ASSETS	$ 220,063	-	220,063
LIABILITIES			
Accounts payable	$ 4,586	-	4,586
Long-term liabilities -			
Due to developer	-	80,664	80,664
TOTAL LIABILITIES	4,586	80,664	85,250
FUND BALANCE / NET POSITION			
Fund balance:			
Nonspendable	436	(436)	-
Unassigned	215,041	(215,041)	-
TOTAL FUND BALANCE	215,477	(215,477)	-
TOTAL LIABILITIES AND FUND BALANCE	$ 220,063		
Net position -			
Unrestricted		134,813	134,813
TOTAL NET POSITION		$ 134,813	$ 134,813

The accompanying notes are an integral part of this statement.

LEANDER MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2021

	General Fund	Adjustments Note 2	Government - Wide Statement of Activities
REVENUES:			
Property taxes, including penalties	$ 94,827	$ -	$ 94,827
Drainage fees	140,650	-	140,650
Interest and other	58	-	58
TOTAL REVENUES	235,535	-	235,535
EXPENDITURES / EXPENSES:			
Legal fees	15,650	-	15,650
Engineering fees	4,500	-	4,500
Accounting fees	10,300	-	10,300
Tax appraisal/collection fees	590	-	590
Director fees, including payroll taxes	3,552	-	3,552
Insurance	7,088	-	7,088
Administrative fees	3,395	-	3,395
Other	51	-	51
TOTAL EXPENDITURES / EXPENSES	45,126	-	45,126
NET CHANGE IN FUND BALANCE	190,409	(190,409)	-
CHANGE IN NET POSITION	-	190,409	190,409
FUND BALANCE / NET POSITION:			
Beginning of the year	25,068	(80,664)	(55,596)
End of the year	$ 215,477	$ (80,664)	$ 134,813

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Leander 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, a political subdivision of the State of Texas, was created under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code for, among other purposes, financing the construction of the water, wastewater, drainage, and recreational facilities within its boundaries, as contemplated in the Consent Agreement effective December 30, 2008 with the City of Leander, Texas (the "City"). The reporting entity of the District encompasses those activities and functions over which the District's officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the "Board"), all of which have been elected or deemed elected by District residents or appointed by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB standards since the majority of Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined by GASB standards which are included in the District's reporting entity.

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

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

Basis of Accounting

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Budgets and Budgetary Accounting - An unappropriated budget was adopted on September 8, 2020, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the fiscal year. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

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

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

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.

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	$	215,477
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund:		
Due to developer		(80,664)
Net Position - Governmental Activities	$	134,813

3. CASH AND CASH EQUIVALENT INVESTMENTS

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

Cash - At September 30, 2021, the carrying amount of the District's cash was $43,989 and the bank balance was $45,725. The bank balance was covered by federal depository insurance.

Cash Equivalents and Investments -

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

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and

- Other mutual fund investments are required to have weighted average maturities of less than two years.

3. CASH AND CASH EQUIVALENT INVESTMENTS (continued) –

Cash Equivalents and Investments (continued) -

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

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

At September 30, 2021, the District held the following investments:

		Governmental Fund		
		General	Investment Rating	
Investment	Fair Value at 9/30/2021	Unrestricted	Rating	Rating Agency
TexPool	$ 162,980	$ 162,980	AAAm	Standard & Poors
	$ 162,980	$ 162,980		

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

3. CASH AND CASH EQUIVALENT INVESTMENTS (continued) –

Concentration of credit risk. In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2021, the District did not own any investments in individual securities.

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of September 30, 2021, the District's bank deposits were fully covered by FDIC insurance.

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Williamson Central Appraisal District establishes appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Assessor Collector bills and collects the District's property taxes. The Board of Directors set current tax rates on September 8, 2020.

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 2020 tax roll. The tax rate, based on total taxable assessed valuation of $9,482,658 was $1.00 on each $100 valuation and was allocated solely to the General Fund. The maximum allowable maintenance tax of $1.50 was established by the voters at an election held on May 10, 2014.

Property taxes were fully collected at September 30, 2021.

5. BONDED DEBT

The District has not issued any debt as of September 30, 2021. Bonds authorized but not issued as of September 30, 2021, are as follows:

Type		Amount
Unlimited Tax Bonds	$	32,376,365
Road Bonds	$	17,623,701
Park and Recreational Facilities	$	7,834,665

6. COMMITMENTS AND CONTINGENCIES

The Developers of the land within the District have incurred costs for the construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the Developer by the District from proceeds of future bond issues or from District operations, subject to approval by the Texas Commission on Environmental Quality. On Novmber 3, 2015, a bond election held within the District approved authorization to issue $32,376,365 of bonds to fund costs of proposed water, wastewater and drainage system facilities, and the costs of creation. Additionally, $7,834,665 of bonds to fund costs for parks and recreational facilities and $17,623,701 of bonds to fund road improvements were approved by voters of the District. As of September 30, 2021, the District has not issued any bonds to repay the developer. The District owes the developers $80,664 for advances used to fund operating expenditures as of September 30, 2021.

7. 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.

8. CONSENT AGREEMENT

Pursuant to the Consent Agreement entered into by the District, the developer and the City of Leander, effective December 30, 2008, as amended, the District and the developer will design, finance, and construct all water and wastewater facilities required to serve the District in accordance with applicable City requirements and design standards. Upon completion of the construction of water and wastewater facilities constructed by or on behalf of the District, and following the City's acceptance of such facilities, the facilities will be conveyed to the City. In exchange for the conveyance of the water and wastewater facilities to serve the District, the City agrees to operate and maintain all water and wastewater facilities conveyed and to provide retail water and wastewater services to customers within the District at the City's standard water and wastewater rates. The term of the Consent Agreement is forty years from the effective date.

9. UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. Since that time, the District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19. The District will continue to carefully monitor the situation and evaluate the financial statement impact, if any, that results from the pandemic.

REQUIRED SUPPLEMENTARY INFORMATION

LEANDER MUNICIPAL UTILITY DISTRICT NO. 1
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2021

	Actual	Original and Final Budget	Variance Positive (Negative)
REVENUES:			
Property taxes, including penalties	$ 94,827	$ 94,800	$ 27
Drainage fees	140,650	58,000	82,650
Other	58	-	58
TOTAL REVENUES	235,535	152,800	82,735
EXPENDITURES:			
Drainage maintenance	-	6,000	6,000
Legal fees	15,650	36,000	20,350
Engineering fees	4,500	10,800	6,300
Accounting fees	10,300	9,750	(550)
Tax appraisal/collection fees	590	25	(565)
Director fees, including payroll taxes	3,552	4,860	1,308
Insurance	7,088	9,750	2,662
Administrative fees	3,395	1,400	(1,995)
Other	51	850	799
TOTAL EXPENDITURES	45,126	79,435	34,309
NET CHANGE IN FUND BALANCE	190,409	$ 73,365	$ 117,044
FUND BALANCE:			
Beginning of the year	25,068		
End of the year	$ 215,477		

APPENDIX C

Form of Bond Counsel's Opinion

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[*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.*]

LEANDER MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX ROAD BONDS, SERIES 2022
IN THE AGGREGATE PRINCIPAL AMOUNT OF $3,000,000

AS BOND COUNSEL FOR LEANDER 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 September 13, 2022 authorizing the issuance of the Bonds (the "Bond Order").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Bond 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**.**

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

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,

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