

**KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
(Kaufman County)**

**PRELIMINARY OFFICIAL STATEMENT
DATED: NOVEMBER 12, 2015**

**\$4,505,000
UNLIMITED TAX ROAD BONDS
SERIES 2015**

**BIDS TO BE SUBMITTED: 11:00 A.M., DALLAS, TEXAS TIME
THURSDAY, NOVEMBER 19, 2015**



Financial Advisor

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 12, 2015

This Preliminary Official Statement is subject to completion and amendment, as provided in the Official Notice of Sale, and is intended for the solicitation of initial bids to purchase the Bonds. Upon the sale of the Bonds, the Official Statement will be completed and delivered to the Underwriter (hereinafter defined).

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT INCLUDED IN THE ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS. SEE "TAX EXEMPTION" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL INCLUDING A DESCRIPTION OF CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

The District will designate the Bonds as "qualified tax-exempt obligations" for financial institutions. See "QUALIFIED TAX-EXEMPT OBLIGATIONS."

NEW ISSUE – Book Entry Only

RATING: Moody's (Underlying)..... "Baa2"
See "MUNICIPAL BOND GUARANTY INSURANCE AND RATING" herein

\$4,505,000

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
(A Political Subdivision of the State of Texas, located within Kaufman County)
UNLIMITED TAX ROAD BONDS, SERIES 2015

Interest accrues from: December 1, 2015

Due: March 1, as shown below

The \$4,505,000 Kaufman County Municipal Utility District No. 2 Unlimited Tax Road Bonds, Series 2015 (the "Bonds") are obligations of Kaufman County Municipal Utility District No. 2 (the "District") and are not obligations of the State of Texas; Kaufman County, Texas; the City of Dallas; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Kaufman County, Texas; the City of Dallas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Amegy Bank National Association, Plano, Texas, or any successor paying agent/registrar (the "Paying Agent/Registrar") directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System." Principal of the Bonds is payable to the registered owner(s) of the Bonds (the "Bondholder(s)") at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds is payable on March 1, 2016, and each September 1 and March 1 thereafter to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). Unless otherwise agreed between the Paying Agent/Registrar and a Bondholder, such interest is payable by check mailed to such persons or by other means acceptable to such person and the Paying Agent/Registrar. The Bonds are issuable in principal denominations of \$5,000 or any integral multiple thereof in fully registered form only.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	Due (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)
2017	\$120,000	___%	___%	2029(b)	\$185,000	___%	___%
2018	125,000	___%	___%	2030(b)	190,000	___%	___%
2019	125,000	___%	___%	2031(b)	200,000	___%	___%
2020	130,000	___%	___%	2032(b)	205,000	___%	___%
2021	135,000	___%	___%	2033(b)	215,000	___%	___%
2022	140,000	___%	___%	2034(b)	225,000	___%	___%
2023	150,000	___%	___%	2035(b)	230,000	___%	___%
2024	155,000	___%	___%	2036(b)	240,000	___%	___%
2025(b)	160,000	___%	___%	2037(b)	250,000	___%	___%
2026(b)	165,000	___%	___%	2038(b)	260,000	___%	___%
2027(b)	170,000	___%	___%	2039(b)	270,000	___%	___%
2028(b)	180,000	___%	___%	2040(b)	280,000	___%	___%

- (a) The initial reoffering yield has been provided by the Underwriter (defined herein) and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from December 1, 2015 is to be added to the price.
- (b) The Bonds are subject to redemption prior to maturity at the option of the District, as a whole or from time to time in part, on March 1, 2024, or any date thereafter at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption. See "THE BONDS – Optional Redemption."

The Bonds constitute the second series of unlimited tax road bonds issued by the District for the purpose of constructing a road system to serve the District (the "Road System"). Voters in the District have authorized a total of \$29,530,000 principal amount of unlimited tax bonds for construction of the Road System. Additionally, the voters in the District have authorized a total of \$63,160,000 principal amount of bonds for the purpose of constructing a water, sewer and drainage system (the "System"). Following the issuance of the Bonds, \$19,675,000 principal amount of unlimited tax bonds for the Road System and \$56,590,000 principal amount of unlimited tax bonds for the System will remain authorized and unissued. See "THE BONDS - Authority for Issuance", and "- Issuance of Additional Debt."

The Bonds, when issued, will be payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property within the District.

The Bonds are offered when, as and if issued by the District and accepted by the winning bidder for the Bonds (the "Underwriter"), subject among other things to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Coats, Rose, Yale, Ryman & Lee, P.C., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by McGuireWoods LLP, Houston, Texas, Disclosure Counsel. The Bonds in definitive form are expected to be available for delivery in Dallas, Texas, on or about December 17, 2015. See "LEGAL MATTERS."

BIDS TO BE SUBMITTED: 11:00 A.M. DALLAS, TEXAS TIME
THURSDAY, NOVEMBER 19, 2015

BIDS TO BE AWARDED: 12:00 P.M. DALLAS, TEXAS TIME
THURSDAY, NOVEMBER 19, 2015

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, resolutions, contracts, audits, 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 Robert W. Baird & Co. Incorporated, 1331 Lamar, Suite 1360, Houston, Texas 77010, the Financial Advisor to the District.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in the Official Statement in accordance with, and as part of, its responsibility to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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 that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in the Official Statement until delivery of the Bonds to the Underwriter, and thereafter only as specified in "SOURCES OF INFORMATION - Updating of Official Statement" and "CONTINUING DISCLOSURE."

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

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by _____ (the "Underwriter"). The Underwriter has agreed to purchase the Bonds, bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page of this Official Statement, at a price of _____% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of _____%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

The District has no control over the reoffering yields or prices of the Bonds or over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked prices of the Bonds may be greater than the difference between the bid and asked prices 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.

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to 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 jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any 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 should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND INSURANCE AND RATING

Applications have been made for a commitment for municipal bond guaranty insurance on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, and fees charged by any rating companies, other than Moody's, will be at the option of the Underwriter. Moody's has assigned an underlying rating of "Baa2" to the Bonds.

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

THE BONDS

The Issuer	Kaufman County Municipal Utility District No. 2 (the "District"), a political subdivision of the State of Texas, is located approximately 21 miles east of downtown Dallas and wholly in the extraterritorial jurisdiction of the City of Dallas and within Kaufman County, Texas. The District is part of the approximately 1,038 acre master-planned community known as "Devonshire." See "THE DISTRICT."
The Issue.....	The District is issuing its \$4,505,000 Unlimited Tax Road Bonds, Series 2015 (the "Bonds"). Interest accrues from December 1, 2015, and the Bonds mature in serial installments on March 1 of each of the years and in the amounts shown on the cover page hereof. Interest is payable March 1, 2016, and on each September 1 and March 1 thereafter until maturity or prior redemption. The Bonds maturing on and after March 1, 2025 are subject to redemption prior to maturity at the option of the District, in whole or in part, on March 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See "THE BONDS – General", and "– Redemption Provisions."
Authority for Issuance	The Bonds constitute the second series of unlimited tax road bonds issued by the District for the purpose of constructing a road system to serve the District (the "Road System"). Voters in the District have authorized a total of \$29,530,000 principal amount of unlimited tax bonds for construction of the Road System. Additionally, the voters in the District have authorized a total of \$63,160,000 principal amount of bonds for the purpose of constructing a water, sewer and drainage system (the "System"). Following the issuance of the Bonds, \$19,675,000 principal amount of unlimited tax bonds for the Road System and \$56,590,000 principal amount of unlimited tax bonds for the System will remain authorized and unissued. The Bonds are issued pursuant to Chapters 49 and 54 of the Texas Water Code; Chapter 8193 of the Texas Special District Local Laws Code; the order of the District's Board of Directors authorizing the issuance of the Bonds (the Bond Order"); an election held on September 10, 2005; and Article III, Section 52 of the Texas Constitution. See "THE BONDS - Authority for Issuance", and "- Issuance of Additional Debt."
Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Kaufman County, the City of Dallas or any entity other than the District. See "THE BONDS – Sources of Payment."
Use of Proceeds	A portion of the proceeds of the Bonds will be used to reimburse the Developer (hereinafter defined) for road construction and land costs as shown herein under "THE BONDS - Use and Distribution of Bond Proceeds." Additionally, proceeds from the Bonds will be used to pay certain costs of issuance of the Bonds.
Qualified Tax-Exempt Obligations.....	The District will designate the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of

1986, as amended (the “Code”), and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2015 is not reasonably expected to exceed \$10,000,000. See “QUALIFIED TAX-EXEMPT OBLIGATIONS.”

Outstanding Bonds	The following bonds have been previously issued by the District for the purpose of acquiring or constructing the System to serve the District: \$4,000,000 Unlimited Tax Bonds, Series 2011 (the "Series 2011 System Bonds") and \$2,570,000 Unlimited Tax Bonds, Series 2013 (the "Series 2013 System Bonds"). An aggregate \$6,245,000 principal amount of the Series 2011 System Bonds and Series 2013 System Bonds remains outstanding (the "Outstanding System Bonds"). The District has also issued \$5,350,000 Unlimited Tax Road Bonds, Series 2014 (the "Series 2014 Road Bonds") of which \$5,350,000 remains outstanding (the "Outstanding Road Bonds"). The Outstanding System Bonds and the Outstanding Road Bonds are collectively referred to as the Outstanding Bonds. See "THE BONDS - Outstanding Bonds."
Payment Record.....	The District has never defaulted on the timely payment of principal and interest on its Outstanding Bonds. See “THE BONDS – Source of Payment.”
Municipal Bond Guaranty Insurance and Rating	Applications have been made for a commitment for municipal bond guaranty insurance on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, and fees charged by any rating companies, other than Moody’s, will be at the option of the initial purchaser of the Bonds (the "Underwriter"). Moody’s has assigned an underlying rating of "Baa2" to the Bonds. See "MUNICIPAL BOND GUARANTY INSURANCE AND RATING."
Legal Opinion	Coats, Rose, Yale, Ryman & Lee, P.C., Dallas, Texas, Bond Counsel. See “LEGAL MATTERS.”
Financial Advisor	Robert W. Baird & Co. Incorporated, Houston, Texas.

THE DISTRICT

Description	Kaufman County Municipal Utility District No. 2, a political subdivision of the State of Texas, is located in the extraterritorial jurisdiction of the City of Dallas in Kaufman County, approximately 21 miles east of the City of Dallas. The District is bordered by Farm-to-Market Road 548 on the southeast, Kaufman County Municipal Utility District No. 3 on the west and Kaufman County Municipal Utility District No. 4 on the northwest. The District is located in the Forney Independent School District. See "THE DISTRICT - General, and - Description."
Authority.....	The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – General.”
Devonshire.....	The District is part of the approximately 1,038 acre master-planned community of "Devonshire." Devonshire is comprised of the District, Kaufman County Municipal Utility District No. 3 ("KCMUD No. 3") and Kaufman County Municipal Utility District No. 4 ("KCMUD No. 4", collectively referred to as the "Devonshire Districts"). See "DEVONSHIRE."

- Status of Development Within the District.... The District contains approximately 313.7 acres. Land within the District has been developed as the single-family subdivisions of Devonshire, Phases 1A, 1B, 1C, and 2A (aggregating 192.2 acres and 609 single-family lots). Additionally approximately 46.1 acres as Devonshire, Phase 2B is under development as 175 single-family residential lots. As of November 1, 2015, the District consisted of approximately 410 complete and occupied homes, 13 complete and unoccupied homes, 62 homes under construction and 124 vacant developed lots. In addition, the District contains approximately 75.4 undeveloped but developable acres. See "DEVELOPMENT WITHIN THE DISTRICT."
- Status of Development within Devonshire All development in Devonshire thus far has occurred within the District. Land within the District has been developed as the single-family subdivisions of Devonshire, Phases 1A, 1B, 1C, and 2A (aggregating 192.2 acres and 609 single-family lots). Additionally approximately 46.1 acres as Devonshire, Phase 2B is under development as 175 single-family residential lots. As of November 1, 2015, Devonshire consisted of approximately 410 complete and occupied homes, 13 complete and unoccupied homes, 62 homes under construction and 124 vacant developed lots. In addition, Devonshire contains approximately 610.0 undeveloped but developable acres and approximately 156.7 undevelopable acres. Devonshire also contains an amenity center which lies on approximately 30 acres located in Kaufman County Municipal Utility District No. 3. See "DEVONSHIRE."
- Developers/Principal Landowners..... Wheelock Street Capital, L.L.C., ("Wheelock" or the "Developer"), a Connecticut based real estate investment and development company, acquired in December 2013 through a subsidiary, WS-DDV, LLC, a Delaware limited liability company, a majority of the undeveloped land in Devonshire, consisting at the time of approximately 720 acres of undeveloped land and 316 developed lots. Wheelock subsequently conveyed the property to two wholly owned single purpose entities, WS-DDV Development, LLC, and WS-DDV Investments, LLC. The WS-DDV Investments entity is a land holding company that does not participate in any type of development. WS-DDV Development owns the developed lots in Devonshire. Wheelock currently owns approximately 122 acres within the District and approximately 56 lots within the District. Additionally, Wheelock owns the remaining land within the Devonshire development except for approximately 114 acres located in KCMUD No. 4. See "THE DEVELOPER."
- Homebuilders Within the District..... Homebuilders active in the District include Highland Homes, Lionsgate Homes, Bloomfield Homes, and Altura Homes. The homes being marketed in the District range in size from 1,500 square feet to 4,200 square feet and price from \$210,000 to \$500,000.
- Regional Facilities The Devonshire Joint Powers Agency ("Devonshire JPA") was created by the District and the other Devonshire Districts to provide the water supply and wastewater treatment capacity as well as the regional water distribution, regional wastewater collection trunk lines and regional storm water collection trunklines necessary to serve Devonshire (collectively, the "Master Facilities"). See "THE SYSTEM."

INVESTMENT CONSIDERATIONS

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2015 Taxable Assessed Valuation	\$103,068,476 (a)
(100% of taxable value as of January 1, 2015)	
See "TAX DATA" and "TAXING PROCEDURES."	
Estimated Valuation as of November 1, 2015	\$140,000,000 (b)
(100% of estimated taxable value as of November 1, 2015)	
See "TAX DATA" and "TAXING PROCEDURES."	
Direct Debt:	
The Outstanding Road System Bonds	\$ 5,350,000
The Outstanding System Bonds	\$ 6,245,000
The Bonds	<u>\$ 4,505,000</u>
Total	\$16,100,000
Estimated Overlapping Debt	<u>\$ 9,546,077 (c)</u>
Total Direct and Estimated Overlapping Debt	<u>\$25,646,077</u>
Ratio of Direct Debt to	
2015 Taxable Assessed Valuation (\$103,068,476)	15.62%
Estimated Valuation as of 11-1-15 (\$140,000,000)	11.50%
Ratio of Direct and Estimated	
Overlapping Debt to	
2015 Taxable Assessed Valuation (\$103,068,476)	24.88%
Estimated Valuation as of 11-1-15 (\$140,000,000)	18.32%
Road Debt Service Fund Balance (as of October 29, 2015)	\$ 404,279 (d)
System Debt Service Fund Balance (as of October 29, 2015)	\$ 382,417 (d)
General Fund Balance (as of October 29, 2015)	\$ 255,836
2015 Tax Rate	
System Debt Service	\$0.36
Road System Debt Service	\$0.48
Maintenance & Operation	<u>\$0.11</u>
Total	<u>\$0.95</u>
Estimated Average Annual Debt Service Requirements (2016-2040)	\$ 1,039,278 (e)
Estimated Maximum Annual Debt Service Requirements (2034)	\$ 1,163,534 (e)
Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Average Annual	
Debt Service Requirements on the Bonds and	
Outstanding Bonds (2016-2040) at 95% Tax Collections	
Based Upon 2015 Assessed Valuation (\$103,068,476)	\$1.07
Based Upon Estimated Valuation as of 11-1-15 (\$140,000,000)	\$0.79
Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Maximum Annual	
Debt Service Requirements on the Bonds and	
Outstanding Bonds (2034) at 95% Tax Collections	
Based Upon 2015 Assessed Valuation (\$103,068,476)	\$1.19
Based Upon Estimated Valuation as of 11-1-15 (\$140,000,000)	\$0.88
Single-Family Homes (including 62 homes under construction) as of November 1, 2015	485

- (a) As certified by the Kaufman County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for information purposes only. Reflects the addition of value of new construction within the District from January 1, 2015 to November 1, 2015. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund. The Debt Service Fund has two components: the Road Debt Service Fund and the System Debt Service Fund. Any funds in the System Debt Service Fund are pledged only to pay the debt service on the System Bonds and are not pledged to the Bonds.
- (e) Debt service on the Bonds is estimated at an average interest rate of 3.75%. See "DISTRICT DEBT – Debt Service Requirements."

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Kaufman County Municipal Utility District No. 2 (the "District"), of its \$4,505,000 Unlimited Tax Road Bonds, Series 2015 (the "Bonds").

The Bonds are issued to the initial purchaser of the Bonds (the "Underwriter") pursuant to (i) the bond order ("Bond Order") adopted by the Board of Directors of the District (the "Board") on the date of the sale of the Bonds, (ii) the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, as amended, (iii) Chapter 8193, Texas Special District Local Laws Code, and (iv) an election held within the District on September 10, 2005.

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the District upon request to Coats, Rose, Yale, Ryman & Lee, P.C., Dallas, Texas, Bond Counsel. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will mature on March 1 of the years and in principal amounts, and will bear interest from December 1, 2015, at the rates per annum, set forth on the cover page of this Official Statement. Interest on the Bonds will be payable March 1, 2016, and semiannually thereafter on each September 1 and March 1 until maturity or redemption. The Bonds maturing on and after March 1, 2025 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on March 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity are redeemed, the Paying Agent/Registrar (defined below) shall select the particular Bonds to be redeemed by random selection method.

The Bonds will be issued only in fully registered form in any integral multiples of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to The Depository Trust Company, New York, New York ("DTC") in its nominee name of Cede & Co., pursuant to the book-entry-only system described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by Amegy Bank National Association, Plano, Texas (the "Paying Agent/Registrar"), the Paying Agent/Registrar to Cede & Co., as registered owner. DTC will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "-Book-Entry-Only System" below.

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

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day without additional interest and with the same force and effect as if made on the specified date for such payment.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, 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 (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“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 purchase 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.

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

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

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

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

The District may decide to discontinue use of the 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.

Use of Certain Terms in Other Sections of this Official Statement

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

Paying Agent/Registrar

The Board has selected Amegy Bank National Association, Plano, Texas, as the initial Paying Agent/Registrar for the Bonds. The initial designated payment office for the Bonds is located in Plano, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$50,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the United States Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the

principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of the Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Mutilated, Lost, Stolen or Destroyed Bonds

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

Authority for Issuance

The ad valorem bonds authorized by the resident electors of the District, the amount of ad valorem bonds issued and the remaining authorized but unissued ad valorem bonds are as follows:

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized But Unissued</u>
September 10, 2005	Water, Sewer, and Drainage	\$ 63,160,000	\$6,570,000	\$56,590,000
November 6, 2007	Road	\$ 29,350,000	\$9,855,000(a)	\$19,675,000

(a) Includes the Bonds.

The Bonds are issued by the District pursuant to the terms and conditions of (i) the Bond Order, (ii) Article XVI, Section 59 of the Texas Constitution, (iii) Chapters 49 and 54 of the Texas Water Code, as amended, (iv) Chapter 8193 of the Texas Special District Local Laws Code, and (v) the general laws of the State of Texas applicable to municipal utility districts.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

Source of Payment

The Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax levied without legal limitation as to rate or amount against taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's Debt Service Fund and used to pay principal of and interest on the Bonds and on any additional bonds payable from taxes which may hereafter be issued by the District.

Redemption Provisions

The Bonds maturing on and after March 1, 2025 shall be subject to redemption at the option of the District, in whole or from time to time in part, on March 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by a random selection method in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for

payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Outstanding Bonds

The District has previously issued its \$4,000,000 Unlimited Tax Bonds, Series 2011 (the "Series 2011 System Bonds") and \$2,570,000 Unlimited Tax Bonds, Series 2013 (the "Series 2013 System Bonds"). An aggregate \$6,245,000 principal amount of the Series 2011 System Bonds and Series 2013 System Bonds remains outstanding (the "Outstanding System Bonds"). The District has also issued \$5,350,000 Unlimited Tax Road Bonds, Series 2014 (the "Series 2014 Road Bonds") of which \$5,350,000 remains outstanding (the "Outstanding Road Bonds"). The Outstanding System Bonds and the Outstanding Road Bonds are collectively referred to as the Outstanding Bonds.

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 assets, such as cash and the utility system, with the water and wastewater system of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation, but the District currently has no plans to do so.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place or payment (paying agent) for obligations of the District payable from ad valorem taxes, amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

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

Issuance of Additional Debt

The District intends to issue additional bonds from its voted authorization. The District's voters have authorized a total of \$29,530,000 principal amount of unlimited tax bonds for the purpose of constructing a road system (the "Road System"). Additionally, the voters in the District have authorized a total of \$63,160,000 principal amount of bonds for the purpose of constructing a water, sewer and drainage system (the "System"). Following the issuance of the Bonds, \$19,675,000 principal amount of unlimited tax bonds for the Road System and \$56,590,000 principal amount of unlimited tax bonds for the System will remain authorized and unissued. See "THE BONDS – Authority

for Issuance.” Any bonds issued by the District, however, must be approved by the Attorney General of Texas. Currently, approval of the Texas Commission on Environmental Quality (“TCEQ”) is not necessary for the issuance of bonds issued to finance the acquisition or construction of roads and roadway improvements. However, if the issuance of debt is for the purpose of financing water, sewer or drainage facilities, approval of the TCEQ is required. See “THE DISTRICT – General.”

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District’s voters or the amount ultimately issued by the District. Except with respect to the issuance of bonds for construction of the Road System, the District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. The total amount of bonds and other obligations of the District issued for construction of the Road System may not exceed one-fourth of the assessed valuation of the real property in the District.

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 interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the Registered Owners of all of the Bonds affected, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, 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 or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may, in the exercise of its police power, make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Registered Owners’ Remedies

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. Subject to the holdings of several recent Texas Supreme Court cases discussed below, a registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District. A registered owner’s only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

The District is also eligible to seek relief from its creditors under Chapter 9. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of 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 Bond holders 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 Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. See “INVESTMENT CONSIDERATIONS - Registered Owners' Remedies,” and “- Bankruptcy Limitation to Registered Owners' Rights.”

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decided in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. 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 such Registered Owner's claim against the District.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Estimated Use and Distribution of Bond Proceeds

A portion of the proceeds from the sale of the Bonds will be used to reimburse the Developer (hereinafter defined) for the road improvements and related engineering and land costs shown below. Additionally, proceeds from the Bonds will be used to pay certain costs of issuance of the Bonds.

	District's Share
CONSTRUCTION COSTS	
A. Phases 1A, 1B, and 1C	
1. Paving	\$1,895,261
2. Storm Sewer	811,394
3. Engineering	548,801
4. Materials Testing	<u>165,498</u>
TOTAL CONSTRUCTION COSTS	<u>\$3,420,954</u>
NON-CONSTRUCTION COSTS	
A. Legal Fees	\$115,100
B. Fiscal Agent Fees	90,100
C. Interest	
1. Developer Interest	684,191
D. Bond Discount (3%)	135,150
E. Bond Issuance Expenses	35,000
F. Bond Engineering Report	20,000
G. Attorney General Fee (0.1%)	<u>4,505</u>
TOTAL NON-CONSTRUCTION COSTS	<u>\$1,084,046</u>
TOTAL BOND ISSUE REQUIREMENT	<u>\$4,505,000</u>

DISTRICT DEBT

General

The following tables and calculations relate to the Bonds. The District and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be raised by taxation against all or a portion of the property within the District.

2015 Taxable Assessed Valuation	\$103,068,476 (a)
(100% of taxable value as of January 1, 2015)	
See "TAX DATA" and "TAXING PROCEDURES."	

Estimated Valuation as of November 1, 2015	\$140,000,000 (b)
(100% of estimated taxable value as of November 1, 2015)	
See "TAX DATA" and "TAXING PROCEDURES."	

Direct Debt:

The Outstanding Road System Bonds	\$ 5,350,000
The Outstanding System Bonds	\$ 6,245,000
The Bonds	<u>\$ 4,505,000</u>
Total	<u>\$16,100,000</u>

Estimated Overlapping Debt	<u>\$ 9,546,077 (c)</u>
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Total Direct and Estimated Overlapping Debt	<u>\$25,646,077</u>
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Ratio of Direct Debt to	2015 Taxable Assessed Valuation (\$103,068,476)	15.62%
	Estimated Valuation as of 11-1-15 (\$140,000,000)	11.50%

Ratio of Direct and Estimated Overlapping Debt to	2015 Taxable Assessed Valuation (\$103,068,476)	24.88%
	Estimated Valuation as of 11-1-15 (\$140,000,000)	18.32%

Road Debt Service Fund Balance (as of October 29, 2015)	\$ 404,279 (d)
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System Debt Service Fund Balance (as of October 29, 2015)	\$ 382,417 (d)
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General Fund Balance (as of October 29, 2015)	\$ 255,836
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2015 Tax Rate

System Debt Service	\$0.36
Road System Debt Service	\$0.48
Maintenance & Operation	<u>\$0.11</u>
Total	<u>\$0.95</u>

Estimated Average Annual Debt Service Requirements (2016-2040)	\$ 1,039,278 (e)
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Estimated Maximum Annual Debt Service Requirements (2034)	\$ 1,163,534 (e)
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Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Average Annual

Debt Service Requirements on the Bonds and	
Outstanding Bonds (2016-2040) at 95% Tax Collections	
Based Upon 2015 Assessed Valuation (\$103,068,476)	\$1.07
Based Upon Estimated Valuation as of 11-1-15 (\$140,000,000)	\$0.79

Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Maximum Annual

Debt Service Requirements on the Bonds and	
Outstanding Bonds (2034) at 95% Tax Collections	
Based Upon 2015 Assessed Valuation (\$103,068,476)	\$1.19
Based Upon Estimated Valuation as of 11-1-15 (\$140,000,000)	\$0.88

Single-Family Homes (including 62 homes under construction) as of November 1, 2015	485
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(a) As certified by the Kaufman County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."

(b) Provided by the Appraisal District for information purposes only. Reflects the addition of value of new construction within the District from January 1, 2015 to November 1, 2015. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."

(c) See "DISTRICT DEBT – Estimated Overlapping Debt."

(d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund. The Debt Service Fund has two components: the Road Debt Service Fund and the System Debt Service Fund. Any funds in the System Debt Service Fund are pledged only to pay the debt service on the System Bonds and are not pledged to the Bonds.

(e) Debt service on the Bonds is estimated at an average interest rate of 3.75%. See "DISTRICT DEBT – Debt Service Requirements."

Estimated Overlapping Debt Statement

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports prepared by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

Taxing Jurisdiction	Outstanding Debt as of October 31, 2015	Percent	Overlapping Amount
Kaufman County	\$ 43,853,850	1.26%	\$ 552,465
Forney ISD	275,492,675	3.26%	<u>8,993,612</u>
TOTAL ESTIMATED OVERLAPPING DEBT			\$ 9,546,077
Direct Debt			<u>16,100,000(a)</u>
TOTAL DIRECT & ESTIMATED OVERLAPPING DEBT			<u>\$25,646,077</u>

(a) Includes the Bonds.

Debt Ratios

	2015 Taxable Assessed Valuation	November 1, 2015 Estimated Valuation
Direct Debt	15.62%	11.50%
Total Direct and Estimated Overlapping Debt	24.88%	18.32%

Pro-Forma Debt Service Requirements

The following schedule sets forth the principal and interest requirements on the Outstanding Bonds, plus the estimated principal and interest requirements for the Bonds, assuming the Bonds are issued at an interest rate of 3.75% per annum.

Year Ending 12/31	Outstanding Road Bonds Debt Service	Outstanding System Bonds Debt Service	Plus: The Bonds				Total Debt Service Requirements
			Principal (Due March 1)	Interest	Total New Debt Service	Total Road Debt Service	
2016	\$ 196,183	\$ 496,788		\$126,703	\$ 126,703	\$ 322,886	\$ 819,673
2017	323,583	499,563	\$120,000	166,688	286,688	610,270	1,109,833
2018	328,813	501,635	125,000	162,094	287,094	615,906	1,117,541
2019	330,011	498,130	125,000	157,406	282,406	612,418	1,110,548
2020	331,505	503,953	130,000	152,625	282,625	614,130	1,118,083
2021	337,430	504,060	135,000	147,656	282,656	620,086	1,124,146
2022	337,755	508,235	140,000	142,500	282,500	620,255	1,128,490
2023	342,568	511,308	150,000	137,063	287,063	629,630	1,140,938
2024	346,849	508,480	155,000	131,344	286,344	633,193	1,141,673
2025	345,613	504,835	160,000	125,438	285,438	631,050	1,135,885
2026	348,983	505,285	165,000	119,344	284,344	633,326	1,138,611
2027	351,908	514,438	170,000	113,063	283,063	634,970	1,149,408
2028	354,273	512,263	180,000	106,500	286,500	640,773	1,153,035
2029	356,115	509,001	185,000	99,656	284,656	640,771	1,149,773
2030	362,324	509,475	190,000	92,625	282,625	644,949	1,154,424
2031	362,821	508,380	200,000	85,313	285,313	648,134	1,156,514
2032	367,513	505,880	205,000	77,719	282,719	650,231	1,156,111
2033	366,513	502,170	215,000	69,844	284,844	651,356	1,153,526
2034	370,013	506,928	225,000	61,594	286,594	656,606	1,163,534
2035	372,913	500,186	230,000	53,063	283,063	655,975	1,156,161
2036	375,213	187,346	240,000	44,250	284,250	659,463	846,809
2037	376,913	188,761	250,000	35,063	285,063	661,975	850,736
2038	377,791	189,671	260,000	25,500	285,500	663,291	852,962
2039	382,734		270,000	15,563	285,563	668,297	668,297
2040			280,000	5,250	285,250	285,250	285,250
Total	\$8,346,330	\$10,676,769	\$4,505,000	\$2,453,859	\$6,958,859	\$15,305,189	\$25,981,958

Estimated Average Annual Requirements - (2016-2040)..... \$1,039,278
Estimated Maximum Annual Requirement - (2034) \$1,163,534

TAXING PROCEDURES

Set forth below is a summary of certain provisions of the Texas Property Tax Code relating to the District's ability to levy and collect property taxes on property within the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. Reference is made to the Property Tax Code for more complete information, including the identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue, 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 above under "THE BONDS - Source of Payment." Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and for the payment of certain contractual obligations. The District levied a road debt service tax rate of \$0.48 per \$100 of assessed valuation, system debt service tax rate of \$0.36 per \$100 of assessed valuation and a maintenance and operation tax rate of \$0.11 per \$100 of assessed valuation for the 2015 tax year. See "TAX DATA- Tax Rate Limitation."

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code"), specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the Appraisal District. The Kaufman County Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Kaufman County, including the District. Such appraisal values will be subject to review and change by the Kaufman County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. 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. In addition, taxing units, such as the District, are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records of the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

Although the District has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Tax Code, the District does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real

property in the appraisal district at least once every three years. It is not known what frequency of future reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

Property Subject to Taxation by the District

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

Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. Effective January 1, 2014, 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, effective January 1, 2014, 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.

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 market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by May 1. The District has not adopted a general homestead exemption.

Freeport Goods Exemption and "Goods-in-Transit": A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2013 and

subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Kaufman County may designate all or part of the area within the District as a reinvestment zone. Thereafter, the District and Kaufman County, each at its option and discretion, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdiction. None of the area within the District has been designated as a reinvestment zone to date, and the District has not approved any such tax abatement agreements.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on 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 all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. 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 one political subdivision while claiming it for 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.

Notice and Hearing Procedures

The Property Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for a taxpayer referendum which could result in the repeal of certain tax increases. The District is required to publish a notice of a public hearing regarding the tax rate proposed to be levied in the current year and comparing the proposed tax rate to the tax rate set in the preceding year. If the proposed combined debt service, operation and maintenance and contract tax rates impose a tax more than 1.08 times the amount of tax imposed in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead, disregarding any homestead exemption available to the disabled or persons 65 years of age or older, the qualified voters of the taxing jurisdiction by petition of ten percent of the registered voters in the taxing jurisdiction may require that an election be held to determine whether to reduce the operation and maintenance tax to the rollback tax rate.

District and Taxpayer Remedies

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

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the District's current year's debt service 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 year on the average residence homestead, disregarding exemptions. The District's debt service tax rate cannot be changed by a rollback election.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. The date of delinquency may be postponed if the tax bills are mailed after January 1. A person over sixty-five (65) years of age is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based on valuation of property within the District as of the preceding January 1.

Taxes are due September 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 twenty percent (20%) 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 provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year in which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims 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 federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchasers deed at the foreclosure sale is filed in the county records.

TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, not to exceed \$1.00 per \$100 of assessed valuation, for operation and maintenance purposes. The District levied a 2015 tax rate of \$0.84 per \$100 of assessed valuation for debt service purposes and \$0.11 per \$100 of assessed valuation for operation and maintenance purposes.

Tax Rate Limitation

Water, Sewer and Drainage Debt Service:	Unlimited (no legal limit as to rate or amount).
Road Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	\$1.00 per \$100 Assessed Valuation.

Historical Tax Collections

The following table illustrates the collection history of the District for the 2011-2015 tax years:

Tax Year	Certified Assessed Valuation	Tax Rate/ \$100 (a)	Adjusted Levy	% of Collections Current Year	Tax Year Ending 9/31	% of Collections as of 7/31/15
2011	\$ 38,682,420	\$0.950	\$367,483	100.00	2012	100.00
2012	44,806,927	0.950	425,666	99.84	2013	100.00
2013	55,628,086	0.950	528,467	99.60	2014	100.00
2014	77,447,142	0.950	735,748	100.00	2015	100.00
2015	103,068,476	0.950	978,486	(b)	2016	(b)

(a) Includes a tax for maintenance and operation purposes. See "- Tax Rate Distribution" below.

(b) Collections have not begun.

Tax Rate Distribution

	2015	2014	2013	2012	2011
Road Debt Service	\$0.48	\$0.36	\$0.00	\$0.00	\$0.00
System Debt Service	0.36	0.49	0.85	0.85	0.85
Maintenance	<u>0.11</u>	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>
	<u>\$0.95</u>	<u>\$0.95</u>	<u>\$0.95</u>	<u>\$0.95</u>	<u>\$0.95</u>

Analysis of Tax Base

The following table illustrates the District's total taxable assessed value in the tax years 2011-2015 by type of property.

Type of Property	2015 Assessed Valuation (a)	2014 Assessed Valuation	2013 Assessed Valuation	2012 Assessed Valuation	2011 Assessed Valuation
Land	26,463,758	25,383,124	24,625,621	24,944,347	25,602,436
Improvements	78,459,699	53,211,979	31,717,019	20,339,930	13,905,590
Personal Property	195,420	142,820	64,190	23,390	29,500
Less Exemption	(2,120,401)	(1,290,781)	(778,744)	(500,740)	(855,106)
Total	102,998,476	77,447,142	55,628,086	44,806,927	38,682,420

(a) Does not include \$70,000 in uncertified value

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2015:

Taxpayer	Type of Property	Assessed Valuation 2015 Tax Roll
WS DDV Development LLC (a)	Land & Improvements	\$8,619,758
Highland Homes LTD	Land & Improvements	1,950,079
Bloomfield Homes LP	Land & Improvements	1,942,810
RH of Texas Limited Partnership	Land & Improvements	1,245,190
Oak National Holdings	Land & Improvements	423,000
Homeowner	Land & Improvements	395,590
Homeowner	Land & Improvements	373,880
Homeowner	Land & Improvements	363,400
Homeowner	Land & Improvements	359,440
Homeowner	Land & Improvements	356,790
Total		<u>\$16,029,937</u>
Percentage of 2015 Assessed Valuation		<u>15.56%</u>

(a) See “DEVELOPER” and “INVESTMENT CONSIDERATIONS – Economic Factors Affecting Taxable Values and Tax Payments.”

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2015 Taxable Assessed Valuation (\$103,068,476) or the Estimated Valuation as of November 1, 2015 (\$140,000,000). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Estimated Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2016-2040)	\$1,039,278
Tax Rate of \$1.07 on the 2015 Taxable Assessed Valuation at 95% collection produces	\$1,047,691
Tax Rate of \$0.79 on the November 1, 2015 Estimated Valuation at 95% collection produces	\$1,050,700
Estimated Maximum Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2034)	\$1,163,534
Tax Rate of \$1.19 on the 2015 Taxable Assessed Valuation at 95% collection produces	\$1,165,189
Tax Rate of \$0.88 on the November 1, 2015 Estimated Valuation at 95% collection produces	\$1,170,400

Estimated Overlapping Taxes

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

Set forth below is a compilation of all 2015 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

<u>Taxing Jurisdiction</u>	<u>2015 Tax Rate/ Per \$100 of A.V.</u>
The District	\$0.950000
Kaufman County	0.489500
Forney Independent School District	1.540000
Kaufman County Road and Bridge	0.086700
Kaufman County Emergency Service District No. 6	<u>0.030000</u>
Estimated Total Tax Rate	<u>\$3.096200</u>

THE DISTRICT

General

The District is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District was created by order of the Texas Commission on Environmental Quality dated April 12, 2005. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. In addition, the District is authorized to purchase, construct, operate and maintain roads. The District is also authorized to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; the control and diversion of storm water. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ.

Description

The District, a political subdivision of the State of Texas, is located in the extraterritorial jurisdiction of the City of Dallas in Kaufman County, approximately 21 miles east of the City of Dallas. The District is bordered by Farm-to-Market Road 548 on the southeast, Kaufman County Municipal Utility District No. 3 on the west and Kaufman County Municipal Utility District No. 4 on the northwest. The District is located in the Forney Independent School District.

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. None of the present members of the Board reside within the District, but all own real property located within the boundaries of the District. Directors are elected in even-numbered years for four-year staggered terms. The present members and officers of the Board are listed below:

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Rhodes Hamilton	President	2016
Justin Allen	Vice President	2016
Clifton A. Squibb	Secretary	2018
Michael Allen	Assistant Secretary	2016
Kasey Ratliff	Assistant Secretary	2018

The District has contracted with following companies and individuals to operate its utilities and recreational facilities:

Tax Assessor/Collector – The District's Tax Assessor/Collector is the Kaufman County Tax Office.

Bookkeeper – The District contracts with Cindy Schmidt, for bookkeeping services.

Utility System Operator – The District’s operator is Severn Trent Services.

Auditor – As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which annual audit is filed with the TCEQ. A copy of the District’s audit prepared by McCall Gibson Swedlund Barfoot PLLC for the fiscal year ended July 31, 2014, is included as “APPENDIX A” to this Official Statement.

Engineer – The consulting engineer retained by the District in connection with the design and construction of the District’s facilities is J. Volk Consulting (the “Engineer”).

Bond Counsel – The District employs Coats, Rose, Yale, Ryman & Lee, P.C. as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Coats, Rose, Yale, Ryman & Lee, P.C. also acts as general counsel for the District.

Disclosure Counsel – The District has engaged McGuireWoods LLP, Houston, Texas as Disclosure Counsel in connection with the issuance of the Bonds. The legal fees to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

Financial Advisor – The District has engaged the firm of Robert W. Baird & Co. Incorporated as financial advisor to the District. Payment to the Financial Advisor by the District is contingent upon the issuance, sale and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

DEVELOPMENT STATUS OF THE DISTRICT

The District contains approximately 313.7 acres. Land within the District has been developed within the development known as "Devonshire" as the single-family subdivisions of Devonshire, Phases 1A, 1B, 1C, and 2A (aggregating 192.2 acres and 609 single-family lots). Additionally approximately 46.1 acres as Devonshire, Phase 2B is under development as 175 single-family residential lots. As of November 1, 2015, the District consisted of approximately 410 complete and occupied homes, 13 complete and unoccupied homes, 62 homes under construction and 124 vacant developed lots. In addition, the District contains approximately 75.4 undeveloped but developable acres.

The table below summarizes the development within the District as of November 1, 2015 by section.

	Approximate Acreage	Homes			Vacant Developed Lots
		Lots	Completed	Under Construction	
Phase 1A	84.4	257	184	15	58
Phase 1B	56.0	217	176	21	20
Phase 1C	39.6	114	60	26	28
Phase 2A	12.2	21	3	0	18
Phase 2B(a)	<u>46.1</u>	<u>175</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	238.3	784	423	62	124
Remaining Undeveloped but Developable Acres	75.4				
Undevelopable Acres	<u>0.0</u>				
Total	<u>313.7</u>				

(a) Currently under development

Homebuilders active in the District include Highland Homes, Lionsgate Homes, Bloomfield Homes, and Altura Homes. The homes being marketed in the District range in size from 1,500 square feet to 4,200 square feet and price from \$210,000 to \$500,000.

DEVONSHIRE

Devonshire is an approximately 1,035 acre master-planned community located 21 miles east of downtown Dallas. Devonshire is bounded by Ranch Road on the north, Farm-to-Market Road 548 on the south and undeveloped property on the east and west.

All development in Devonshire thus far has occurred within the District. Land within the District has been developed as the single-family subdivisions of Devonshire, Phases 1A, 1B, 1C, and 2A (aggregating 192.2 acres and 609 single-family lots). Additionally approximately 46.1 acres as Devonshire, Phase 2B is under development as 175 single-family residential lots.

As of November 1, 2015, Devonshire consisted of approximately 410 complete and occupied homes, 13 complete and unoccupied homes, 62 homes under construction and 124 vacant developed lots. In addition, Devonshire contains approximately 610.0 undeveloped but developable acres and approximately 156.7 undevelopable acres. Devonshire also contains an amenity center which lies on approximately 30 acres located in Kaufman County Municipal Utility District No. 3.

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken September, 2015)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken September, 2015)



DEVELOPER

The Role of a Developer

In general, the activities of a developer in a municipal utility district, such as the District, include the following: acquiring the land within the district, designing the subdivision, the utilities and streets to be constructed in the subdivision, and any community facilities to be built; defining a marketing program and building schedule; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling improved lots and commercial reserves to builders and other developers or other third parties. Pursuant to the rules of the TCEQ, a developer can be required to pay up to 30% of the cost of constructing certain water, wastewater and drainage facilities in a municipal utility district. The relative success or failure of a developer to perform such activities in the development of property within a municipal utility district may have a profound effect on the security of the bonds issued by a district. A developer is generally under no obligation to a municipal utility district to develop the property that it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a municipal utility district.

The Developer

Wheelock Street Capital, L.L.C., ("Wheelock" or the "Developer"), a Connecticut based real estate investment and development company, acquired in December 2013 through a subsidiary, WS-DDV, LLC, a Delaware limited liability company, a majority of the undeveloped land in Devonshire, consisting at the time of approximately 720 acres of undeveloped land and 316 developed lots. Wheelock subsequently conveyed the property to two wholly owned single purpose entities, WS-DDV Development, LLC, and WS-DDV Investments, LLC. The WS-DDV Investments entity is a land holding company that does not participate in any type of development. WS-DDV Development owns the developed lots in Devonshire. Wheelock currently owns approximately 122 acres within the District and approximately 56 lots within the District. Additionally, Wheelock owns the remaining land within the Devonshire development except for approximately 114 acres located in KCMUD No. 4.

Development Financing

WS-DDV Development, LLC and WS-DDV Investments, LLC have obtained a loan for approximately \$21,000,000 from Bank of the Ozarks. Such loan bears interest at 5.00% and matures on December 20, 2016. The loan is secured by lots, land and future reimbursements within Devonshire. The outstanding balance on the loan is \$12,450,000 as of October 15, 2015. According to Bank of the Ozarks, the borrower is in compliance with all material conditions of the loan.

Lot Sales Contract

The Developer has entered into Lot Sales Contracts with Highland Homes, Lionsgate Homes, Bloomfield Homes and Altura Homes. Highland Homes has contracted to purchase 281 lots. As of October 15, 2015, Highland Homes has purchased 22 lots and, according to the Developer, is in compliance with its lot sales contract. Lionsgate Homes has contracted to purchase 109 lots. As of October 15, 2015, Lionsgate Homes has purchased all 109 lots. According to the Developer, Lionsgate Homes has completed their obligations under the contract. Bloomfield Homes has contracted to purchase 46 lots. As of October 15th, 2015, Bloomfield Homes has purchased 46 lots and, according to the Developer has completed its obligations under the contract. Altura Homes has contracted to purchase 42 lots. As of October 23, 2015, Altura Homes has purchased 33 lots. According to the Developer, Altura Homes is in compliance with its lot sales contract. In the new section, Phase 2B, Highland Homes has contracted for fifty 50' lots and thirty-eight 60' lots. They will begin taking down these lots in December. Gehan Homes has previously acquired 15 lots in Phase 1A and are contracted to purchase fifty 50' lots in Section 2B. The first takedown of lots should begin in December 2015. In Section 2B, Bloomfield Homes has contracted for thirty-seven 60' lots and should begin taking down those lots in December 2015.

THE SYSTEM AND THE ROAD SYSTEM

Regulation

According to the Engineer, the System and the Road System have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City of Dallas, and Kaufman County. According to the District's Engineer, the design of all such facilities has been

approved by all required governmental agencies and, the water and sanitary sewer system has been inspected by the TCEQ.

Operation of the District's waterworks and sewer treatment facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Description of the Road System

Construction of the road improvements within the boundaries of the District has been financed with funds advanced by the Developer, to be reimbursed with bond proceeds. The roads within the District vary in width in accordance with standards adopted by Kaufman County, but are sized to accommodate the anticipated traffic demands of full build-out of the property within the District.

Description of the System

- Water Supply and Distribution -

The District's water supply is provided by the Devonshire Joint Powers Agency ("Devonshire JPA"). The Devonshire JPA has contracted with High Point Water Supply Corporation ("HPWSC") to provide water service to Devonshire. HPWSC receives fresh water from City of Forney, which, in turn, receives water from North Texas Municipal Water District ("NTMWD"). The Devonshire JPA has paid HPWSC for water facilities that directly benefit Devonshire, including the District, including: an 800,000 gallon ground storage tank, two 17,000 gallon pressure tanks, two 2,200 gallon per minute booster pumps, and trunk water distribution lines. The Devonshire JPA has funded enough capacity to serve approximately 1,133 equivalent single-family connections ("ESFCs").

- Wastewater Treatment and Conveyance System -

The District's wastewater treatment service is provided by the Devonshire JPA. The Devonshire JPA has contracted with City of Forney, which has contracted with NTMWD for wastewater service to Devonshire. The District's wastewater flows through trunk lines connected to an interceptor line owned and operated by NTMWD. Ultimately, the District's wastewater flows to the South Mesquite Regional Wastewater Treatment Plant (the "WWTP"), which is owned and operated by NTMWD. The Devonshire JPA has purchased sufficient capacity in the WWTP to serve 1,006 ESFCs.

- Drainage -

Stormwater runoff from Devonshire drains (i) along Devonshire Boulevard and eventually to Big Brushy Creek which feeds Cedar Creek Lake and (ii) west to Buffalo Creek which drains to the East Fork of the Trinity River.

- Devonshire Joint Powers Agency-

The Devonshire JPA is an administrative agency created through an Interlocal Contract between the District, Kaufman County Municipal Utility District No. 3 ("KCMUD No. 3"), and Kaufman County Municipal Utility District No.4 ("KCMUD No.4," and together with KCMUD No. 3, the "Devonshire Districts") pursuant to Chapter 791 of the Texas Government Code. The Devonshire JPA oversees regional wastewater conveyance and treatment, water supply and conveyance, and storm sewer facilities (the "Master Facilities") and services to the Devonshire development. In particular, the Devonshire JPA administers the "Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer and Storm Sewer Facilities" entered into by the District and dated June 30, 2005 and identical contracts entered into by KCMUD No. 3 and KCMUD No. 4 (the "Master Contracts"). The construction of the Master Facilities is financed through connection charges collected by the Devonshire JPA from the District, KCMUD No. 3, and KCMUD No. 4 under the Master Contracts. The Devonshire JPA also administers the wastewater treatment contract with the City of Forney and the water supply contract with High Point Water Supply Corporation. The Devonshire JPA is governed by a five-member Board of Trustees. Two of the Trustees are appointed by the District, one of the Trustees is appointed by KCMUD No. 3, and two of the Trustees are appointed by KCMUD No.4.

Each Devonshire District is responsible for constructing its internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. The internal facilities are financed with unlimited ad valorem tax bonds sold by each district. The Master Facilities will be constructed in stages to meet the needs of a continually expanding population within Devonshire. In the event that the Devonshire JPA fails to meet its obligations under the Master Contracts to provide Master Facilities, each of the other Devonshire Districts has the right pursuant to its Master Contract to design, acquire, construct, or expand the Master Facilities needed to provide service to such

district, and convey such Master Facilities to the Devonshire JPA in consideration of payment by the Devonshire JPA of the actual capital costs expended by such district for such Master Facilities.

The District is further obligated to pay monthly charges for water and sewer services rendered pursuant to its Master Contract. The monthly charges will be used to pay the District's share of operation and maintenance expenses of the Master Facilities and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. The District's share of operation and maintenance expenses and reserve requirements is determined by dividing the total number of equivalent single family residential connections (ESFCs) for all of the Devonshire Districts within the service area by the number of ESFCs for the District, as of the first day of each month. The District's monthly payment for operation and maintenance expenses is calculated by multiplying the District's pro rata share by the actual operation and maintenance expenses of the Devonshire JPA.

Pursuant to its Master Contract, the District is obligated to establish and maintain rates, fees and charges for services provided by the District's water distribution system and wastewater collection system, together with taxes levied and funds received from any other lawful sources, sufficient at all times to pay the District's operation and maintenance expenses, and the District's obligations pursuant to its Master Contract, including the District's pro rata share of the Devonshire JPA's monthly charges. All sums payable by the District pursuant to its Master Contract are to be paid by the District without set off, counterclaim, abatement, suspension or diminution. If the District fails to pay its share of these costs in a timely manner, its Master Contract provides that the Devonshire JPA shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master Facilities by the District in addition to the Devonshire JPA's other remedies. As a practical matter, the District has no alternative provider of these services rendered under its Master Contract.

Historical Operations of the System

The following is a summary of the District's Operating Fund for the last five years. The figures for the fiscal years ending July 31, 2011 through July 31, 2015, were obtained from the District's annual financial reports, reference to which is hereby made. The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

	Fiscal Year Ended July 31,				
	2015	2014	2013	2012	2011
REVENUES:					
Property Taxes	\$77,027	\$ 55,602	\$ 45,630	\$ 42,446	\$ 278,862
Wastewater Service	190,896	131,232	76,623	53,097	32,715
Franchise Tax Revenue	24,925	17,487	9,934	8,165	5,851
Inspection Fees	116,000	109,000	86,000	46,000	38,250
Miscellaneous	728	3,348	830	924	2,626
TOTAL REVENUES	\$ 409,576	\$ 316,669	\$ 219,017	\$ 150,632	\$ 358,304
EXPENDITURES:					
Professional Fees	\$28,659	\$ 44,045	\$ 30,959	\$ 25,118	\$ 35,393
Contracted Services	62,142	45,949	33,101	25,496	20,260
Purchased Wastewater Services	185,382	131,753	72,866	30,262	54,457
Utilities	10,331	9,367	9,344	8,638	8,212
Repairs and Maintenance	40,736	28,977	3,457	3,982	1,713
Other	76,676	71,337	103,707	34,930	31,845
TOTAL EXPENDITURES	\$ 403,926	\$ 331,428	\$ 253,434	\$ 128,426	\$ 151,880
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 5,650	\$ (14,759)	\$ (34,417)	\$ 22,206	\$ 206,424
OTHER FINANCING SOURCES					
Transfers In(Out)		\$ 40,787			
NET CHANGE IN FUND BALANCE	\$ 5,560	\$ 26,028	\$ (34,417)	\$ 22,206	\$ 206,424

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Kaufman County, Texas, the City of Dallas, Texas, or any political subdivision other than the District. The Bonds are 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 Payment.” The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Economic Factors Affecting Taxable Values and Tax Payments

The rate of development within the District is directly related to the vitality of the single-family housing market in the Dallas metropolitan area. New single-family residential construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of single-family residential construction would restrict the growth of property values in the District. Although 485 single-family homes are either completed or under construction, the District cannot predict the pace or magnitude of any future development in the District. See “DEVELOPMENT STATUS OF THE DISTRICT.”

Developer's Obligations to the District: There is no commitment by or legal requirement of the Developer, or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any home builder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any landowner's right to sell its land. Therefore, the District can make no representation about the profitability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See “DEVELOPMENT STATUS OF THE DISTRICT,” and “DEVELOPERS/PRINCIPAL LANDOWNERS.”

Maximum Impact on District Tax Rate: 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 property owners to pay their taxes. The 2015 Assessed Valuation of property within the District (see “FINANCIAL STATEMENT”), is \$103,068,476 and the November 1, 2015 Estimated Valuation is \$140,000,000. After issuance of the Bonds, the estimated maximum annual debt service requirement will be \$1,163,534 (2034) and the estimated average annual debt service requirement will be \$1,039,278 (2016 through 2040 inclusive). Assuming no increase or decrease from the 2015 Assessed Valuation, a tax rate of \$1.07 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the estimated maximum annual debt service requirement of \$1,163,534 and a tax rate of \$1.19 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the estimated average annual debt service requirements of \$1,039,278 (see “DISTRICT DEBT – Debt Service Requirements”). Assuming no increase or decrease from the November 1, 2015 Estimated Valuation, tax rates of \$0.88 and \$0.79 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the estimated maximum annual debt service requirement and the estimated average annual debt service requirement on the Bonds, respectively. The District levied a tax rate of \$0.84 per \$100 of assessed valuation in 2015 for debt service purposes and \$0.11 per \$100 of assessed valuation for maintenance purposes.

Tax Collections and Foreclosure Remedies

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

Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “TAX DATA--Estimated Overlapping Taxes”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property after foreclosure). Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings

initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer.

Registered Owners' Remedies

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. Subject to the holdings of several recent Texas Supreme Court cases discussed below, a registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. In addition, the Texas Supreme Court recently ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract. The District is also 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 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 Bond holders 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 Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. See "THE BONDS - Registered Owners' Remedies."

Bond Insurance Risk Factors

The Issuer has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The Issuer has yet to determine whether an insurance policy will be purchased with the Bonds. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

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

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any

remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

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

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

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

Neither the District or Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Issuer to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Future Debt

Following the issuance of the Bonds, \$19,675,000 principal amount of unlimited tax bonds for the Road System and \$56,590,000 principal amount of unlimited tax bonds for the System will remain authorized and unissued. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds. See "DEVELOPMENT STATUS OF THE DISTRICT." Following the issuance of the Bonds, the District will owe the Developer approximately \$6,500,000 for the existing water, sewer, drainage and road infrastructure. The Developer is also owed approximately \$4,800,000 for Master Facilities constructed to date and the Devonshire JPA will use the fees to reimburse the Developer for Master Facilities. The Devonshire JPA will collect connection fees from the Devonshire Districts, including the District, pursuant to the Master Contracts. See "THE SYSTEM AND THE ROAD SYSTEM – Description of the System - Devonshire Joint Powers Agency."

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the Engineer (See "THE DISTRICT- Management of the District"), following the issuance of the Bonds, the remaining \$19,675,000 principal amount of authorized but unissued road bonds will be sufficient to fully reimburse the Developer for the existing road facilities and the road facilities to serve the remaining undeveloped but developable land within the District.

Competitive Nature of Dallas Residential Market

The housing industry in the Dallas area is very competitive, and the District can give no assurance that the building programs which are planned by the Developer will be continued or completed. The respective competitive positions of the Developer and any of the homebuilders are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Collection of Taxes

The District's ability to pay debt service on the Bonds may be adversely affected by its ability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien on the property in favor of the District on a parity with the lien of all other state and local authorities. Such lien can be foreclosed in judicial

proceedings. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court's stay of a tax collection procedure against a taxpayer or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property including the taxpayer's right to redeem property for a specified period of time after foreclosure at the foreclosure sale price. See "TAXING PROCEDURES - Collection."

Marketability of the Bonds

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

Bankruptcy Limitation to Registered Owners' Rights

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. The rights and remedies of the Registered Owners could be adjusted in accordance with the confirmed plan of adjustment of the District's debt.

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 "LEGAL MATTERS--Tax Exemption."

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, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

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 an annual ad valorem tax levied without 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 Bond Counsel that, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the Bonds are valid and legally 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 bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. The legal opinion will further state that the interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under "TAX EXEMPTION." The legal opinion of Bond Counsel will be printed on the Bonds, if certificated Bonds are issued. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Certain legal matters will be passed upon for the District by McGuireWoods LLP, Houston, Texas, Disclosure Counsel.

In addition to serving as Bond Counsel, Coats, Rose, Yale, Ryman & Lee, P.C., also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid Bond Counsel and Disclosure 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.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature is then pending against or, to the best knowledge and belief of the certifying officers, threatened against the District contesting or attacking the Bonds; restraining or enjoining the authorization, 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 of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the titles of the then present officers of the Board.

No Material Adverse Change

The obligations of the Underwriter 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 subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Coats, Rose, Yale, Ryman & Lee, P.C., Dallas, 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.

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

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as 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 Law, which is 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 accumulated earnings and profits and excess passive investment income, 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 will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations 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.

QUALIFIED TAX-EXEMPT OBLIGATIONS

Section 265 of the Code provides, in general, that interest expense incurred to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner thereof. In addition, interest expense incurred by certain owners that are “financial institutions” within the meaning of such section and which is allocable to tax-exempt obligations acquired after August 7, 1986, is completely disallowed as a deduction for taxable years beginning after December 31, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions and allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the District, as “qualified tax-exempt obligations.” An issue may be designated as “qualified tax-exempt obligations” only where the amount of such issue, when added to all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District will, pursuant to the Bond Order, designate the Bonds as “qualified tax-exempt obligations” and certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions that purchase the Bonds will not be subject to the 100 percent disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, 20 percent of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds would not be deductible pursuant to Section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the 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”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system which is available at www.emma.msrb.org.

Annual Reports

The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB via EMMA.

The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings “DISTRICT DEBT,” “TAX DATA,” and APPENDIX A (the District’s Audited Financial Report). The District will update and provide this information to EMMA within six months after the end of each of its fiscal years ending in or after 2016. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six month period, and audited financial statements when the audit report becomes available.

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

Material Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten 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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the United States Securities and Exchange Commission amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the

reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

OFFICIAL STATEMENT

General

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

The District's audited financial statements for the year ended July 31, 2015, were prepared by McCall Gibson Swedlund Barfoot PLLC, and have been included herein as "APPENDIX A." McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Preliminary Official Statement.

Experts

The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the section captioned "DEVELOPER," "DEVONSHIRE," and "DEVELOPMENT STATUS OF THE DISTRICT" has been provided by the Developer and has been included herein in reliance upon the authority and knowledge of each such party concerning the matters described therein.

The information contained in this Official Statement relating to the District's financial statements, in particular, the information in APPENDIX A, has been provided by the Auditor and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

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

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned "TAX DATA" has been provided by the Kaufman County Appraisal District and the District's Tax Assessor/Collector, and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

Certification as to Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriter a certificate, executed by the President and Secretary of the Board of Directors of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data, contained in this Official Statement, of or pertaining to entities other than the District, such statements and data have been obtained from sources which the District believes to be reliable, and the District has no reason to believe that they are untrue in any material respect.

Updating the Official Statement

If, subsequent to the date of the Official Statement to and including the date the Underwriter is no longer required to provide an 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 Underwriter 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 Underwriter a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Underwriter. The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Underwriter (the “end of the underwriting period” within the meaning of the Rule), unless the Underwriter 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 Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Underwriter agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

Official Statement “Deemed Final”

For purposes of compliance with the Rule, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an “official statement” with respect to the Bonds described herein “deemed final” by the District as of the date hereof (or of any such supplement or correction).

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a “final official statement” of the District with respect to the Bonds, as that term is defined in the Rule.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District’s records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Kaufman County Municipal Utility District No. 2 as of the date specified on the first page hereof.

/s/

Rhodes Hamilton
President, Board of Directors
Kaufman County Municipal Utility District No. 2

ATTEST:

/s/

Clifton A. Squibb
Secretary, Board of Directors
Kaufman County Municipal Utility District No. 2

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

**KAUFMAN COUNTY MUNICIPAL
UTILITY DISTRICT NO. 2**

KAUFMAN COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2015

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Kaufman County Municipal Utility District No. 2 (the "District"), as of and for the year ended July 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of July 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – 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 supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

October 29, 2015

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JULY 31, 2015

Management's discussion and analysis of Kaufman County Municipal Utility District No. 2's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended July 31, 2015. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide statements is the Statement of Net Position. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$3,040,279 as of July 31, 2015.

A portion of the district's net position reflects its net investment in capital assets (roads as well as water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding).

The following is a comparative analysis of government-wide changes in net position:

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2015	2014	Change Positive (Negative)
Current and Other Assets	\$ 1,522,844	\$ 1,107,663	\$ 415,181
Capital Assets (Net of Accumulated Depreciation)	15,282,277	14,753,830	528,447
Total Assets	\$ 16,805,121	\$ 15,861,493	\$ 943,628
Due to Developer	\$ 8,211,468	\$ 11,910,744	\$ 3,699,276
Bonds Payable	11,309,290	6,217,606	(5,091,684)
Other Liabilities	324,642	215,138	(109,504)
Total Liabilities	\$ 19,845,400	\$ 18,343,488	\$ (1,501,912)
Net Position:			
Net Investment in Capital Assets	\$ (3,627,511)	\$ (2,695,335)	\$ (932,176)
Restricted	851,718	553,170	298,548
Unrestricted	(264,486)	(339,830)	75,344
Total Net Position	\$ (3,040,279)	\$ (2,481,995)	\$ (558,284)

The following table provides a summary of the District's operations for the years ended July 31, 2015, and July 31, 2014. The District's net position decreased by \$558,284 during the current fiscal year.

	Summary of Changes in the Statement of Activities		
	2015	2014	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 731,761	\$ 528,154	\$ 203,607
Charges for Services	333,373	258,795	74,578
Other Revenues	3,309	4,816	(1,507)
Total Revenues	\$ 1,068,443	\$ 791,765	\$ 276,678
Expenses for Services	1,626,727	1,169,948	(456,779)
Change in Net Position	\$ (558,284)	\$ (378,183)	\$ (180,101)
Net Position, Beginning of Year	(2,481,995)	(2,103,812)	(378,183)
Net Position, End of Year	\$ (3,040,279)	\$ (2,481,995)	\$ (558,284)

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of July 31, 2015, were \$1,421,674, an increase of \$384,831 from the prior year.

The General Fund fund balance increased by \$5,650.

The Debt Service Fund fund balance increased by \$377,703, primarily due to the structure of the District's long-term debt requirements and proceeds from the current year bond sale.

The Capital Projects Fund fund balance increased by \$1,478. The developer was reimbursed from Series 2014 Road Bond proceeds sold in the current fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$19,976 more than budgeted primarily due to higher than anticipated wastewater service revenues. Actual expenditures were \$35,986 more than budgeted primarily due to higher than anticipated contracted services, purchased wastewater costs and repairs and maintenance costs.

CAPITAL ASSETS

Capital assets as of July 31, 2015, total \$15,282,277 (net of accumulated depreciation) and include roads as well as the water, wastewater and drainage systems and the District's capacity interest in the Devonshire Joint Powers Agency facilities.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2015	2014	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,809,246	\$ 1,435,842	\$ 373,404
Capital Assets, Net of Accumulated Depreciation:			
Roads	5,559,019	5,194,494	364,525
Water System	1,216,683	1,248,372	(31,689)
Wastewater System	1,770,129	1,816,233	(46,104)
Drainage System	2,110,284	2,165,247	(54,963)
Capacity in Devonshire Joint Powers Agency	2,816,916	2,893,642	(76,726)
Total Net Capital Assets	<u>\$ 15,282,277</u>	<u>\$ 14,753,830</u>	<u>\$ 528,447</u>

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2015

LONG-TERM DEBT ACTIVITY

At fiscal year end, the District had total bond debt payable of \$11,595,000. The changes in the debt position of the District during the fiscal year ended July 31, 2015, are summarized as follows:

Bond Debt Payable, August 1, 2014	\$ 6,395,000
Add: Bond Sale - Series 2014	5,350,000
Less: Bond Principal Paid	<u>150,000</u>
Bond Debt Payable, July 31, 2015	<u><u>\$ 11,595,000</u></u>

The District does not have an underlying rating and the Series 2011, Series 2013 and Series 2014 Bonds do not have an insured rating. This is unchanged from the prior year.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kaufman County Municipal Utility District No. 2, c/o Coats, Rose, Yale, Ryman & Lee, P.C., 5420 LBJ Freeway, Suite 600, Dallas, Texas 75240.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 145,489	\$ 646,201
Investments	150,000	425,000
Receivables:		
Property Taxes	3	23
Accrued Interest	232	520
Other	350	
Due from Other Funds		3,472
Due from Devonshire Joint Powers Agency	64,965	
Advance for Joint Operations	32,291	
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	<u>\$ 393,330</u>	<u>\$ 1,075,216</u>

The accompanying notes to the financial
statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 57,770	\$ 849,460 575,000	\$	\$ 849,460 575,000
	26		26
	752		752
	350		350
	3,472	(3,472)	
	64,965		64,965
	32,291		32,291
		1,809,246	1,809,246
		<u>13,473,031</u>	<u>13,473,031</u>
<u>\$ 57,770</u>	<u>\$ 1,526,316</u>	<u>\$ 15,278,805</u>	<u>\$ 16,805,121</u>

The accompanying notes to the financial statements are an integral part of this report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>
LIABILITIES		
Accounts Payable	\$ 101,144	\$
Accrued Interest Payable		
Due to Developer		
Due to Other Funds	3,472	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 104,616</u>	<u>\$ -0-</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	<u>\$ 3</u>	<u>\$ 23</u>
FUND BALANCES		
Nonspendable:		
Operating Advance	\$ 32,291	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,075,193
Unassigned	<u>256,420</u>	
TOTAL FUND BALANCES	<u>\$ 288,711</u>	<u>\$ 1,075,193</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 393,330</u></u>	<u><u>\$ 1,075,216</u></u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

The accompanying notes to the financial
statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 101,144	\$	\$ 101,144
		223,498	223,498
		8,211,468	8,211,468
	3,472	(3,472)	
		160,000	160,000
		11,149,290	11,149,290
<u>\$ -0-</u>	<u>\$ 104,616</u>	<u>\$ 19,740,784</u>	<u>\$ 19,845,400</u>
<u>\$ -0-</u>	<u>\$ 26</u>	<u>\$ (26)</u>	<u>\$ -0-</u>
\$	\$ 32,291	\$ (32,291)	\$
57,770	57,770	(57,770)	
	1,075,193	(1,075,193)	
	256,420	(256,420)	
<u>\$ 57,770</u>	<u>\$ 1,421,674</u>	<u>\$ (1,421,674)</u>	<u>\$ - 0 -</u>
<u>\$ 57,770</u>	<u>\$ 1,526,316</u>		
		\$ (3,627,511)	\$ (3,627,511)
		851,718	851,718
		(264,486)	(264,486)
		<u>\$ (3,040,279)</u>	<u>\$ (3,040,279)</u>

The accompanying notes to the financial statements are an integral part of this report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JULY 31, 2015

Total Fund Balances - Governmental Funds	\$	1,421,674
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Land and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		15,282,277
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Deferred tax revenues on delinquent taxes for the 2014 tax levy became part of recognized revenue in the governmental activities of the District.		26
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (8,211,468)	
Accrued Interest Payable	(223,498)	
Bonds Payable	<u>(11,309,290)</u>	<u>(19,744,256)</u>
Total Net Position - Governmental Activities	\$	<u><u>(3,040,279)</u></u>

The accompanying notes to the financial
statements are an integral part of this report.

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KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2015

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 77,027	\$ 654,729
Wastewater Service	190,896	
Franchise Tax Revenue	24,925	
Penalty and Interest		1,552
Inspection Fees	116,000	
Miscellaneous Revenues	<u>728</u>	<u>2,475</u>
TOTAL REVENUES	<u>\$ 409,576</u>	<u>\$ 658,756</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 28,659	\$ 355
Contracted Services	62,142	8,261
Purchased Wastewater Service	185,382	
Utilities	10,331	
Repairs and Maintenance	40,736	
Depreciation		
Other	76,676	545
Capital Outlay		
Debt Service:		
Bond Issuance Costs		
Bond Principal		150,000
Bond Interest		<u>416,166</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 403,926</u>	<u>\$ 575,327</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ 5,650</u>	<u>\$ 83,429</u>
OTHER FINANCING SOURCES (USES)		
Bond Discount	\$	\$
Proceeds from Long-Term Debt		<u>294,274</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ 294,274</u>
NET CHANGE IN FUND BALANCES	\$ 5,650	\$ 377,703
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - AUGUST 1, 2014	<u>283,061</u>	<u>697,490</u>
FUND BALANCES/NET POSITION - JULY 31, 2015	<u><u>\$ 288,711</u></u>	<u><u>\$ 1,075,193</u></u>

The accompanying notes to the financial
statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 731,756	\$ 5	\$ 731,761
	190,896		190,896
	24,925		24,925
	1,552		1,552
	116,000		116,000
106	3,309		3,309
<u>\$ 106</u>	<u>\$ 1,068,438</u>	<u>\$ 5</u>	<u>\$ 1,068,443</u>
\$	\$ 29,014	\$	\$ 29,014
	70,403		70,403
	185,382		185,382
	10,331		10,331
	40,736		40,736
		426,922	426,922
339	77,560		77,560
4,654,645	4,654,645	(4,654,645)	
278,995	278,995		278,995
	150,000	(150,000)	
	416,166	91,218	507,384
<u>\$ 4,933,979</u>	<u>\$ 5,913,232</u>	<u>\$ (4,286,505)</u>	<u>\$ 1,626,727</u>
<u>\$ (4,933,873)</u>	<u>\$ (4,844,794)</u>	<u>\$ 4,286,510</u>	<u>\$ (558,284)</u>
\$ (120,375)	\$ (120,375)	\$ 120,375	\$
5,055,726	5,350,000	(5,350,000)	
<u>\$ 4,935,351</u>	<u>\$ 5,229,625</u>	<u>\$ (5,229,625)</u>	<u>\$ -0-</u>
\$ 1,478	\$ 384,831	\$ (384,831)	\$
		(558,284)	(558,284)
56,292	1,036,843	(3,518,838)	(2,481,995)
<u>\$ 57,770</u>	<u>\$ 1,421,674</u>	<u>\$ (4,461,953)</u>	<u>\$ (3,040,279)</u>

The accompanying notes to the financial statements are an integral part of this report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2015

Net Change in Fund Balances - Governmental Funds	\$	384,831
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		5
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(426,922)
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Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		4,654,645
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Governmental funds report bond discounts as other financing uses in the year paid. However, in the Statement of Net Position, the bond discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		120,375
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Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, these payments are reported as decreases in long-term liabilities.		150,000
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(91,218)
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Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		(5,350,000)
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Change in Net Position - Governmental Activities	\$	(558,284)
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The accompanying notes to the financial
statements are an integral part of this report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 1. CREATION OF DISTRICT

Kaufman County Municipal Utility District No. 2 (the “District”), was created April 12, 2005, by order of the Texas Commission Environmental Quality (the “Commission”), as a confirmation and reclamation district created under and essential to accomplishing the purposes of Section 59, Article XVI of the Texas Constitution. The District is under the oversight of the Commission. Pursuant to S.B. No. 1205, 80th Legislature of Texas, Regular Session, the District acquired the authority to provide roads under Section 52 Article II of the Texas Constitution. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code and S.B. No. 1205, the District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, roads, solid waste collection and disposal, including recycling. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its organizational meeting on June 30, 2005, and sold its first bonds on February 15, 2011.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

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

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund – To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund – To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund – To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of July 31, 2015, the Debt Service Fund has recorded a receivable of \$3,472 from the General Fund for the over transfer of maintenance tax collections.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as expenses in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
Roads	10-50
All Other Equipment	3-20

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

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

Unassigned: all other spendable amounts in the General Fund.

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.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of 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.

NOTE 3. LONG-TERM DEBT

	Series 2011	Series 2013	Series 2014
Amount Outstanding –July 31, 2015	\$ 3,730,000	\$ 2,515,000	\$ 5,350,000
Interest Rates	4.75%-6.40%	3.50%-5.05%	2.25%-4.125%
Maturity Dates	March 1, 2016/2035	March 1, 2016/2038	March 1, 2017/2038
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	March 1, 2019*	March 1, 2021*	March 1, 2022*

* Or any date thereafter at a price of par plus unpaid accrued interest, in whole or in part, at the option of the District. Series 2011 term bonds maturing on March 1, 2026, March 1, 2028, March 1, 2030, and March 1, 2035, are subject to mandatory redemption by random selection beginning March 1, 2025, March 1, 2027, March 1, 2029, and March 1, 2031, respectively. Series 2013 term bonds maturing on March 1, 2023, March 1, 2025, March 1, 2027, March 1, 2029, March 1, 2032, and March 1, 2038 are subject to mandatory redemption by random selection beginning March 1, 2022, March 1, 2024, March 1, 2026, March 1, 2028, March 1, 2030, and March 1, 2033, respectively. Series 2014 term bonds maturing on March 1, 2033, March 1, 2037, and March 1, 2039 are subject to mandatory redemption by random selection beginning March 1, 2032, March 1, 2036, and March 1, 2038, respectively.

The following is a summary of transactions regarding long-term liabilities for the year ended July 31, 2015:

	August 1, 2014	Additions	Retirements	July 31, 2015
Bonds Payable	\$ 6,395,000	\$ 5,350,000	\$ 150,000	\$ 11,595,000
Unamortized Discounts	(177,394)	(120,375)	(12,059)	(285,710)
Bonds Payable, Net	<u>\$ 6,217,606</u>	<u>\$ 5,229,625</u>	<u>\$ 137,941</u>	<u>\$ 11,309,290</u>
		Amount Due Within One Year		\$ 160,000
		Amount Due After One Year		11,149,290
		Bonds Payable, Net		<u>\$ 11,309,290</u>

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 3. LONG-TERM DEBT (Continued)

As of July 31, 2015, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 160,000	\$ 536,394	\$ 696,394
2017	300,000	529,546	829,546
2018	320,000	516,744	836,744
2019	330,000	504,151	834,151
2020	350,000	492,132	842,132
2021-2025	2,060,000	2,231,420	4,291,420
2026-2030	2,675,000	1,713,134	4,388,134
2031-2035	3,480,000	972,740	4,452,740
2036-2039	1,920,000	200,041	2,120,041
	<u>\$ 11,595,000</u>	<u>\$ 7,696,302</u>	<u>\$ 19,291,302</u>

As of July 31, 2015, the District has authorized but unissued bonds in the amount of \$56,590,000 for water, sewer and drainage purposes and authorized but unissued bonds in the amount of \$24,180,000 for road improvements.

During the year ended July 31, 2015, the District levied an ad valorem debt service tax rate of \$0.85 per \$100 of assessed valuation, which resulted in a tax levy of \$654,733 on the adjusted taxable valuation of \$77,027,422 for the 2014 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. The District's tax calendar is as follows:

Levy Date	- October 1, or as soon thereafter as practicable.
Lien Date	- January 1.
Due Date	- Not later than January 31.
Delinquent Date	- February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

For the bonds sold, the District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds be rebated to the federal government, within the meaning of Section 148(f) of the Internal Revenue Code.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS
(Continued)

In accordance with the Series 2013 and 2014 bond orders, a portion of the bond proceeds was deposited into the Debt Service Fund and restricted for the payment of bond interest during the construction period. Transactions for the current year are summarized as follows:

Restricted - Bond Interest – August 1, 2014	\$ 58,836
Add: Interest Received – Series 2014	294,274
Less: Interest Paid – Series 2013	58,836
Interest Paid – Series 2014	<u>69,753</u>
Restricted - Bond Interest – July 31, 2015	<u>\$ 224,521</u>

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,424,460 and the bank balance was \$1,454,018. Of the bank balance, \$1,075,000 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at July 31, 2015, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 145,489	\$ 150,000	\$ 295,489
DEBT SERVICE FUND	646,201	425,000	1,071,201
CAPITAL PROJECTS FUND	<u>57,770</u>	<u> </u>	<u>57,770</u>
TOTAL DEPOSITS	<u>\$ 849,460</u>	<u>\$ 575,000</u>	<u>\$ 1,424,460</u>

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. 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." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of July 31, 2015, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
Certificate of Deposit	\$ 150,000	\$ 150,000	\$	\$	\$
<u>DEBT SERVICE FUND</u>					
Certificates of Deposit	<u>425,000</u>	<u>425,000</u>			
TOTAL INVESTMENTS	\$ 575,000	\$ 575,000	\$ - 0 -	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended July 31, 2015:

	August 1, 2014	Increases	Decreases	July 31, 2015
Capital Assets Not Being Depreciated				
Land and Land Improvements	<u>\$ 1,435,842</u>	<u>\$ 373,404</u>	<u>\$ -0-</u>	<u>\$ 1,809,246</u>

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 6. CAPITAL ASSETS (Continued)

	August 1, 2014	Increases	Decreases	July 31, 2015
Capital Assets Subject to Depreciation				
Roads	\$ 5,940,662	\$ 581,965	\$	\$ 6,522,627
Water System	1,426,004			1,426,004
Wastewater System	2,074,667			2,074,667
Drainage System	2,473,342			2,473,342
Capacity in Devonshire Joint Powers Agency	3,069,053			3,069,053
Total Capital Assets Subject to Depreciation	<u>\$ 14,983,728</u>	<u>\$ 581,965</u>	<u>\$ - 0 -</u>	<u>\$ 15,565,693</u>
Less Accumulated Depreciation				
Roads	\$ 746,168	\$ 217,440	\$	\$ 963,608
Water System	177,632	31,689		209,321
Wastewater System	258,434	46,104		304,538
Drainage System	308,095	54,963		363,058
Capacity in Devonshire Joint Powers Agency	175,411	76,726		252,137
Total Accumulated Depreciation	<u>\$ 1,665,740</u>	<u>\$ 426,922</u>	<u>\$ - 0 -</u>	<u>\$ 2,092,662</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 13,317,988</u>	<u>\$ 155,043</u>	<u>\$ - 0 -</u>	<u>\$ 13,473,031</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 14,753,830</u></u>	<u><u>\$ 528,447</u></u>	<u><u>\$ - 0 -</u></u>	<u><u>\$ 15,282,277</u></u>

NOTE 7. MAINTENANCE TAX

On September 5, 2005, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater systems. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.10 per \$100 of assessed valuation, which resulted in a tax levy of \$77,028 on the adjusted taxable valuation of \$77,027,422 for the 2014 tax year.

NOTE 8. CONTRACT WITH DEVONSHIRE JOINT POWERS AGENCY

On June 30, 2005, and as amended on March 27, 2009, the District executed a 50-year contract with Kaufman County Municipal Utility District No. 3 ("Master District") for the financing, operation and maintenance of the Master District's regional water, sanitary sewer and drainage facilities. On March 27, 2009, the contract was assigned to the Devonshire Joint Powers Agency ("Agency"). The Agency administers the contract for the Participants. The District, Kaufman County Municipal Utility District No. 3 and Kaufman County Municipal Utility District No. 4 are the Participants at this time.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 8. CONTRACT WITH DEVONSHIRE JOINT POWERS AGENCY
(Continued)

The District's water supply is provided by the Agency. The Agency has contracted with High Point Water Supply Corporation ("High Point") to provide water service to the Agency. High Point receives fresh water from the City of Forney, Texas ("the City"), which, in turn, receives water from North Texas Municipal Water District ("NTMWD"). The Agency has paid High Point for water facilities that directly benefit the Agency, including the District, consisting of: an 800,000 gallon ground storage tank, two 17,000 gallon pressure tanks, two 2,200 gallons per minute booster pumps and trunk water distribution lines. The Agency has funded enough capacity to serve approximately 1,133 equivalent single-family connections ("ESFCs").

The District's wastewater service is provided by the Agency. The Agency has contracted with the City, which has contracted with NTMWD for wastewater service to the Agency. The District's wastewater flows through trunk lines connected to an interceptor line owned and operated by NTMWD. Ultimately, the District's wastewater flows to the South Mesquite Regional Wastewater Treatment Plant (the "WWTP"), which is owned and operated by NTMWD. The Agency has purchased sufficient capacity in the WWTP to serve 1,006 ESFCs. The Agency owns and operates the facilities which it finances through connection charges. Each Participant is responsible for paying connection charges to the Agency.

The Agency prepares an operating budget annually. The Agency bills each Participant its share of the monthly operating charges determined by multiplying the number of actual connections within the district on the first day of the previous month by the monthly unit cost per connection shown in the budget. The contract also provides for an operating reserve equal to three months operating expenses. The District has funded its share of the operating reserve in the amount of \$32,291.

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant changes in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 10. UNREIMBURSED DEVELOPER COSTS

The District has executed financing agreements which call for the Developer to fund costs associated with water, sewer, and drainage facilities and roads. The Developer has also advanced money to the District's General Fund in order for the District to meet its ongoing financial obligations. Reimbursement to the Developer will come from future bond sales.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2015

NOTE 11. BOND SALE

On October 23, 2014, the District issued \$5,350,000 of Series 2014 Unlimited Tax Road Bonds. Proceeds from the bonds were used to reimburse the Developer for construction costs for paving to serve Devonshire, Phases 1A, 1B, and 1C, as well as land costs for road right of way for Devonshire Phases 1A, 1B, 1C and 2A. Additional proceeds were used to pay for capitalized interest on the bonds, as well as issuance costs of the bonds.

NOTE 12. PENDING BOND SALE

Subsequent to the report date, the District anticipates closing on the sale of its Series 2015 Road Bonds, proceeds of which will be used to reimburse the Developer for certain road construction costs.

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KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2015

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2015

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 78,000	\$ 77,027	\$ (973)
Wastewater Service	168,000	190,896	22,896
Franchise Tax Revenue	18,000	24,925	6,925
Inspection Fees	125,000	116,000	(9,000)
Miscellaneous Revenues	<u>600</u>	<u>728</u>	<u>128</u>
TOTAL REVENUES	<u>\$ 389,600</u>	<u>\$ 409,576</u>	<u>\$ 19,976</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 42,000	\$ 28,659	\$ 13,341
Contracted Services	53,600	62,142	(8,542)
Purchased Wastewater Service	156,000	185,382	(29,382)
Utilities	9,600	10,331	(731)
Repairs and Maintenance	27,000	40,736	(13,736)
Other	<u>79,740</u>	<u>76,676</u>	<u>3,064</u>
TOTAL EXPENDITURES	<u>\$ 367,940</u>	<u>\$ 403,926</u>	<u>\$ (35,986)</u>
NET CHANGE IN FUND BALANCE	\$ 21,660	\$ 5,650	\$ (16,010)
FUND BALANCE - AUGUST 1, 2014	<u>283,061</u>	<u>283,061</u>	<u></u>
FUND BALANCE - JULY 31, 2015	<u><u>\$ 304,721</u></u>	<u><u>\$ 288,711</u></u>	<u><u>\$ (16,010)</u></u>

See accompanying independent auditor's report.

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KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

JULY 31, 2015

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2015

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order approved on July 15, 2014.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WASTEWATER:	\$ 40.61	-0-	Y		

SURCHARGE:

Commission	Equal to rate
Regulatory	charged by
Assessments	Commission

District employs winter averaging for wastewater usage?

<u> </u>	<u> X </u>
Yes	No

Total monthly charges per 10,000 gallons usage Wastewater: \$40.61 Surcharge: \$0.20 Total: \$40.81

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2015

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤¾"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1½"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u>N/A</u>	<u>N/A</u>		<u>N/A</u>
Total Wastewater Connections	<u>403</u>	<u>403</u>	x 1.0	<u>403</u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: N/A

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2015

4. STANDBY FEES (authorized only under TWC Section 49.231):

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Kaufman County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ in which District is located:

City of Dallas, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2015

PROFESSIONAL FEES:	
Auditing	\$ 9,000
Engineering	5,324
Legal	<u>14,335</u>
TOTAL PROFESSIONAL FEES	<u>\$ 28,659</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Wastewater Service	<u>\$ 185,382</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 5,333
Operations and Billing	<u>22,057</u>
TOTAL CONTRACTED SERVICES	<u>\$ 27,390</u>
UTILITIES:	
Electricity	\$ 4,243
Telephone	<u>6,088</u>
TOTAL UTILITIES	<u>\$ 10,331</u>
REPAIRS AND MAINTENANCE	<u>\$ 40,736</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 3,600
Insurance	6,938
Payroll Taxes	275
Travel and Meetings	130
Other	<u>373</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 11,316</u>
SOLID WASTE DISPOSAL	<u>\$ 34,752</u>
OTHER EXPENDITURES:	
Inspection Fees	<u>\$ 65,360</u>
TOTAL EXPENDITURES	<u>\$ 403,926</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
INVESTMENTS
JULY 31, 2015

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Certificate of Deposit	XXXX0200	0.35%	08/21/15	<u>\$ 150,000</u>	<u>\$ 232</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX3108	0.35%	08/26/15	<u>\$ 245,000</u>	<u>\$ 366</u>
Certificate of Deposit	XXXX3419	0.20%	08/26/15	<u>180,000</u>	<u>154</u>
TOTAL DEBT SERVICE FUND				<u>\$ 425,000</u>	<u>\$ 520</u>
TOTAL - ALL FUNDS				<u>\$ 575,000</u>	<u>\$ 752</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2015

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
AUGUST 1, 2014	\$	2	\$	19
Adjustments to Beginning				
Balance	<u> </u>	\$ 2	<u> </u>	\$ 19
Original 2014 Tax Levy	\$	77,430	\$	658,155
Adjustment to 2014 Tax Levy	<u> </u>	<u>(402)</u>	<u> </u>	<u>(3,422)</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 77,030		\$ 654,752
TAX COLLECTIONS:				
Prior Years	\$	2	\$	19
Current Year	<u> </u>	<u>77,025</u>	<u> </u>	<u>654,710</u>
		<u>77,027</u>		<u>654,729</u>
TAXES RECEIVABLE -				
JULY 31, 2015		<u>\$ 3</u>		<u>\$ 23</u>
TAXES RECEIVABLE BY				
YEAR:				
2014		<u>\$ 3</u>		<u>\$ 23</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2015

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
PROPERTY VALUATIONS:				
Land	\$ 25,383,124	\$ 24,625,621	\$ 24,989,347	\$ 25,602,436
Improvements	53,190,719	31,697,219	20,524,230	13,905,590
Personal Property	142,820	64,190	23,390	29,500
Exemptions	<u>(1,689,241)</u>	<u>(791,744)</u>	<u>(508,240)</u>	<u>(855,106)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 77,027,422</u>	<u>\$ 55,595,286</u>	<u>\$ 45,028,727</u>	<u>\$ 38,682,420</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.85	\$ 0.85	\$ 0.85	\$ 0.85
Maintenance	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>	<u>0.10</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.95</u>	<u>\$ 0.95</u>	<u>\$ 0.95</u>	<u>\$ 0.95</u>
ADJUSTED TAX LEVY*	<u>\$ 731,761</u>	<u>\$ 528,155</u>	<u>\$ 427,775</u>	<u>\$ 366,999</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.99 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 assessed valuation approved by voters on September 5, 2005.

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2015

S E R I E S - 2 0 1 1				
Due During Fiscal Years Ending July 31	Principal Due March 1	Interest Due September 1/ March 1	Total	
2016	\$ 100,000	\$ 224,465	\$	324,465
2017	110,000	219,715		329,715
2018	115,000	214,215		329,215
2019	120,000	208,235		328,235
2020	130,000	201,755		331,755
2021	135,000	194,605		329,605
2022	145,000	187,045		332,045
2023	155,000	178,780		333,780
2024	160,000	169,790		329,790
2025	170,000	160,350		330,350
2026	180,000	150,150		330,150
2027	195,000	139,350		334,350
2028	205,000	127,455		332,455
2029	215,000	114,950		329,950
2030	230,000	101,620		331,620
2031	245,000	87,360		332,360
2032	255,000	71,680		326,680
2033	270,000	55,360		325,360
2034	290,000	38,080		328,080
2035	305,000	19,520		324,520
2036				
2037				
2038				
2039				
	<u>\$ 3,730,000</u>	<u>\$ 2,864,480</u>	<u>\$</u>	<u>6,594,480</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2015

S E R I E S - 2 0 1 3				
Due During Fiscal Years Ending July 31	Principal Due March 1	Interest Due September 1/ March 1	Total	
2016	\$ 60,000	\$ 115,747	\$	175,747
2017	60,000	113,648		173,648
2018	65,000	111,547		176,547
2019	65,000	109,273		174,273
2020	70,000	106,997		176,997
2021	75,000	104,548		179,548
2022	80,000	101,922		181,922
2023	85,000	98,723		183,723
2024	90,000	95,322		185,322
2025	90,000	91,498		181,498
2026	95,000	87,672		182,672
2027	105,000	83,398		188,398
2028	110,000	78,672		188,672
2029	115,000	73,454		188,454
2030	120,000	67,985		187,985
2031	125,000	61,985		186,985
2032	135,000	55,735		190,735
2033	140,000	48,985		188,985
2034	150,000	41,915		191,915
2035	155,000	34,340		189,340
2036	165,000	26,512		191,512
2037	175,000	18,180		193,180
2038	185,000	9,343		194,343
2039				
	<u>\$ 2,515,000</u>	<u>\$ 1,737,401</u>	<u>\$</u>	<u>4,252,401</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2015

S E R I E S - 2 0 1 4 R O A D			
Due During Fiscal Years Ending July 31	Principal Due March 1	Interest Due September 1/ March 1	Total
2016	\$	\$ 196,182	\$ 196,182
2017	130,000	196,183	326,183
2018	140,000	190,982	330,982
2019	145,000	186,643	331,643
2020	150,000	183,380	333,380
2021	160,000	179,630	339,630
2022	165,000	175,230	340,230
2023	175,000	170,280	345,280
2024	185,000	164,855	349,855
2025	190,000	158,842	348,842
2026	200,000	152,383	352,383
2027	210,000	145,582	355,582
2028	220,000	138,233	358,233
2029	230,000	130,312	360,312
2030	245,000	121,918	366,918
2031	255,000	112,730	367,730
2032	270,000	102,912	372,912
2033	280,000	92,113	372,113
2034	295,000	80,912	375,912
2035	310,000	69,113	379,113
2036	325,000	56,712	381,712
2037	340,000	43,713	383,713
2038	355,000	30,112	385,112
2039	375,000	15,469	390,469
	<u>\$ 5,350,000</u>	<u>\$ 3,094,421</u>	<u>\$ 8,444,421</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2015

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending July 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2016	\$ 160,000	\$ 536,394	\$ 696,394
2017	300,000	529,546	829,546
2018	320,000	516,744	836,744
2019	330,000	504,151	834,151
2020	350,000	492,132	842,132
2021	370,000	478,783	848,783
2022	390,000	464,197	854,197
2023	415,000	447,783	862,783
2024	435,000	429,967	864,967
2025	450,000	410,690	860,690
2026	475,000	390,205	865,205
2027	510,000	368,330	878,330
2028	535,000	344,360	879,360
2029	560,000	318,716	878,716
2030	595,000	291,523	886,523
2031	625,000	262,075	887,075
2032	660,000	230,327	890,327
2033	690,000	196,458	886,458
2034	735,000	160,907	895,907
2035	770,000	122,973	892,973
2036	490,000	83,224	573,224
2037	515,000	61,893	576,893
2038	540,000	39,455	579,455
2039	375,000	15,469	390,469
	<u>\$ 11,595,000</u>	<u>\$ 7,696,302</u>	<u>\$ 19,291,302</u>

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JULY 31, 2015

Description	Original Bonds Issued	Bonds Outstanding August 1, 2014
Kaufman County Municipal Utility District No. 2 Unlimited Tax Bonds - Series 2011	\$ 4,000,000	\$ 3,825,000
Kaufman County Municipal Utility District No. 2 Unlimited Tax Bonds - Series 2013	2,570,000	2,570,000
Kaufman County Municipal Utility District No. 2 Unlimited Tax Road Bonds - Series 2014	<u>5,350,000</u>	
TOTAL	<u>\$ 11,920,000</u>	<u>\$ 6,395,000</u>
Bond Authority:	<u>Water, Sewer and Drainage Bonds</u>	<u>Road Bonds</u>
Amount Authorized by Voters	\$ 63,160,000	\$ 29,530,000
Amount Issued	<u>6,570,000</u>	<u>5,350,000</u>
Remaining to be Issued	<u>\$ 56,590,000</u>	<u>\$ 24,180,000</u>
Debt Service Fund cash and investment balances as of July 31, 2015:		<u>\$ 1,071,201</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 803,804</u>

See Note 3 for interest rate, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding July 31, 2015</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 95,000	\$ 228,740	\$ 3,730,000	The Bank of New York Mellon Trust Company N.A. Dallas, TX
	55,000	117,673	2,515,000	The Bank of New York Mellon Trust Company N.A. Dallas, TX
<u>5,350,000</u>		<u>69,753</u>	<u>5,350,000</u>	Amegy Bank N.A. Plano, TX
<u>\$ 5,350,000</u>	<u>\$ 150,000</u>	<u>\$ 416,166</u>	<u>\$ 11,595,000</u>	

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amount		
	2015	2014	2013
REVENUES			
Property Taxes	\$ 77,027	\$ 55,602	\$ 45,630
Wastewater Service	190,896	131,232	76,623
Franchise Tax Revenue	24,925	17,487	9,934
Inspection Fees	116,000	109,000	86,000
Miscellaneous Revenues	728	3,348	830
TOTAL REVENUES	<u>\$ 409,576</u>	<u>\$ 316,669</u>	<u>\$ 219,017</u>
EXPENDITURES			
Professional Fees	\$ 28,659	\$ 44,045	\$ 30,959
Contracted Services	62,142	45,949	33,101
Purchased Wastewater Service	185,382	131,753	72,866
Utilities	10,331	9,367	9,344
Repairs and Maintenance	40,736	28,977	3,457
Other	76,676	71,337	103,707
TOTAL EXPENDITURES	<u>\$ 403,926</u>	<u>\$ 331,428</u>	<u>\$ 253,434</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 5,650</u>	<u>\$ (14,759)</u>	<u>\$ (34,417)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$	\$ 40,787	\$
Developer Advances	<u></u>	<u></u>	<u></u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ 40,787</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 5,650	\$ 26,028	\$ (34,417)
BEGINNING FUND BALANCE	<u>283,061</u>	<u>257,033</u>	<u>291,450</u>
ENDING FUND BALANCE	<u><u>\$ 288,711</u></u>	<u><u>\$ 283,061</u></u>	<u><u>\$ 257,033</u></u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2012	2011	2015	2014	2013	2011	2011
\$ 42,446	\$ 278,862	18.8 %	17.7 %	20.8 %	28.3 %	77.8 %
53,097	32,715	46.6	41.4	35.0	35.2	9.1
8,165	5,851	6.1	5.5	4.5	5.4	1.6
46,000	38,250	28.3	34.4	39.3	30.5	10.7
924	2,626	0.2	1.0	0.4	0.6	0.8
<u>\$ 150,632</u>	<u>\$ 358,304</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 25,118	\$ 35,393	7.0 %	13.9 %	14.1 %	16.7 %	9.9 %
25,496	20,260	15.2	14.5	15.1	16.9	5.7
30,262	54,457	45.3	41.6	33.3	20.1	15.2
8,638	8,212	2.5	3.0	4.3	5.7	2.3
3,982	1,713	9.9	9.2	1.6	2.6	0.5
34,930	31,845	18.7	22.5	47.4	23.2	8.9
<u>\$ 128,426</u>	<u>\$ 151,880</u>	<u>98.6 %</u>	<u>104.7 %</u>	<u>115.8 %</u>	<u>85.2 %</u>	<u>42.5 %</u>
<u>\$ 22,206</u>	<u>\$ 206,424</u>	<u>1.4 %</u>	<u>(4.7) %</u>	<u>(15.8) %</u>	<u>14.8 %</u>	<u>57.5 %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ 22,206	\$ 206,424					
269,244	62,820					
<u>\$ 291,450</u>	<u>\$ 269,244</u>					

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	<u>Amount</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES			
Property Taxes	\$ 654,729	\$ 472,541	\$ 384,678
Penalty and Interest	1,552	1,076	2,168
Miscellaneous Revenues	<u>2,475</u>	<u>1,447</u>	<u>1,213</u>
TOTAL REVENUES	<u>\$ 658,756</u>	<u>\$ 475,064</u>	<u>\$ 388,059</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 7,911	\$ 5,933	\$ 5,517
Debt Service Principal	150,000	90,000	85,000
Debt Service Interest and Fees	<u>417,416</u>	<u>284,383</u>	<u>236,465</u>
TOTAL EXPENDITURES	<u>\$ 575,327</u>	<u>\$ 380,316</u>	<u>\$ 326,982</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 83,429</u>	<u>\$ 94,748</u>	<u>\$ 61,077</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	<u>\$ 294,274</u>	<u>\$ 117,672</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 377,703	\$ 212,420	\$ 61,077
BEGINNING FUND BALANCE	<u>697,490</u>	<u>485,070</u>	<u>423,993</u>
ENDING FUND BALANCE	<u>\$ 1,075,193</u>	<u>\$ 697,490</u>	<u>\$ 485,070</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>403</u>	<u>319</u>	<u>208</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2012	2011	2015	2014	2013	2012	2011
\$ 326,427	\$	99.4 %	99.5 %	99.1 %	99.2 %	%
1,046		0.2	0.2	0.6	0.3	
1,593	1,076	0.4	0.3	0.3	0.5	100.0
\$ 329,066	\$ 1,076	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 4,149	\$ 48	1.2 %	1.2 %	1.4 %	1.3 %	4.5 %
246,952		22.8	18.9	21.9	75.0	
		63.4	59.9	60.9		
\$ 251,101	\$ 48	87.4 %	80.0 %	84.2 %	76.3 %	4.5 %
\$ 77,965	\$ 1,028	12.6 %	20.0 %	15.8 %	23.7 %	95.5 %
\$ - 0 -	\$ 345,000					
\$ 77,965	\$ 346,028					
346,028						
\$ 423,993	\$ 346,028					
N/A	N/A					
126	90					

See accompanying independent auditor's report.

KAUFMAN COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2015

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended July 31, 2015</u>	<u>Title</u>
Coats, Rose, Yale, Ryman & Lee, P.C.	06/30/05	\$ 14,335	General Counsel/
	03/25/10	\$ 135,050	Bond Counsel/
		\$ 355	Delinquent Tax Attorney
McCall Gibson Swedlund Barfoot PLLC	07/23/09	\$ 15,250	Auditor
Cindy Schmidt	06/30/05	\$ 6,053	Bookkeeper/
		\$ -0-	Investment Officer
J. Volk Consulting, Inc.	07/15/14	\$ 15,377	Engineer
Robert W. Baird & Co. Incorporated	04/16/15	\$ -0-	Financial Advisor
RBC Capital Markets	06/30/05	\$ 109,683	Prior Financial Advisor
Severn Trent Services, Inc.	11/12/08	\$ 32,829	Operator
Kaufman County Tax Office	10/03/14	\$ 975	Tax Assessor/ Collector

See accompanying independent auditor's report.

