

OFFICIAL NOTICE OF SALE

\$2,700,000

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
(A Political Subdivision of the State of Texas Located in Travis County, Texas)
UNLIMITED TAX BONDS, SERIES 2016

Selling (Bids Due): Monday, October 3, 2016 at 9:30 AM, CDT
Award Expected: 12:30 P.M., CDT

The Bonds are obligations solely of Kelly Lane Water Control and Improvement District No. 2 (the "District") and are not obligations of the City of Pflugerville, Texas; Pflugerville Independent School District, Travis County, Texas; the State of Texas or any entity other than the District.

THE DISTRICT EXPECTS TO DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The Board of Directors (the "Board") of the District is inviting competitive bids for the purchase of its \$2,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds"). Sealed bids may be submitted by either of three alternative procedures: (1) written bids; (2) electronic bids; or (3) telephone or facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the District nor its Financial Advisor, Specialized Public Finance Inc., assumes any responsibility or liability for a prospective bidding procedure.

The District and Specialized Public Finance Inc. assume no responsibility or liability with respect to any irregularities associated with the submission of bids by telephone, facsimile or electronic options.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System ("PARITY").

PROCEDURE NUMBER 1: SEALED, WRITTEN BIDS DELIVERED IN PERSON . . . Bids, plainly marked "Bid for Bonds" should be addressed to "Board of Directors of Kelly Lane Water Control and Improvement District No. 2" and should be delivered to the District's Financial Advisor, Garry Kimball, Specialized Public Finance Inc., at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 9:30 A.M., CDT, on October 3, 2016 ("the date of the bid opening").

PROCEDURE NUMBER 2: ELECTRONIC BIDDING PROCEDURES . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY by 9:30 A.M., CDT, on the date of the bid opening. ***Bidders must also submit, by 9:30 A.M., CDT, on the date of the bid opening, SIGNED Official Bid Forms to Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746.***

Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid through PARITY. Further information about PARITY, including any fee charged, may be obtained from Dalcomp/Parity, 395 Hudson Street, New York, New York 10014, attention: Jennifer Emery (212) 806-8304.

The District will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe to the bidding system. An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the District. Neither Specialized Public Finance Inc. nor the District shall be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY, the use of such facilities being the sole risk of the prospective bidder.

All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale and Official Bid Form. If any provision of this Official Notice of Sale conflicts with information provided by PARITY as the approved provider of electronic bidding services, this Official Notice of Sale shall control.

For information purposes only, bidders are requested to state in their electronic bids the net interest cost to the District, as described under "Basis of Award" below.

PROCEDURE NUMBER 3: BIDS BY TELEPHONE OR FACSIMILE . . . Bidders must submit by 9:30 A.M., CDT, on the date of the bid opening, SIGNED Official Bid Forms to Garry Kimball, Specialized Public Finance Inc., at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, and submit their bid by telephone or facsimile (fax) by 9:30 A.M., CDT, on the date of the bid opening.

Telephone bids will be accepted at (512) 275-7300, between 9:00 A.M. and 9:30 A.M., CDT on the date of the bid opening.

Fax bids must be received between 9:00 A.M. and 9:30 A.M., CDT, on the date of the bid opening at (512) 275-7305, attention: Garry Kimball.

PLACE AND TIME OF BID OPENING . . . The Board will publicly review and award the sale of the Bonds at the designated meeting place outside the boundaries of the District, at Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701 at 12:30 P.M., CDT on Monday, October 3, 2016. All bids, including those being hand delivered, must be received by 9:30 A.M., CDT on the date of the bid opening. Any bid received after the scheduled time for receipt will not be accepted by the Board and will be returned unopened.

AWARD OF BONDS . . . The District will take action to award the Bonds or reject any or all bids promptly upon the opening of bids. Upon awarding the Bonds to the winning bidder (the “Initial Purchaser”), the Board will adopt an order authorizing the issuance of the Bonds (the “Bond Order”). Sale of the Bonds will be made subject to the terms, conditions and provisions of the Bond Order, to which Bond Order reference is hereby made for all purposes. The District reserves the right to reject any and all bids and to waive any irregularities, except the time of filing.

WITHDRAWAL OF THE BIDS . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for six hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

EXTENSION OF SALE DATE . . . The District reserves the right to extend the date and/or time for the receipt of bids by giving notice, by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, CDT, on Friday, September 30, 2016 of the new date and time for receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

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

THE BONDS

DESCRIPTION OF BONDS . . . The Bonds will be dated October 1, 2016, and interest will accrue from the date of Initial Delivery (as defined herein), will be payable on March 1, 2017, and on each September 1 and March 1 thereafter until the earlier of maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity, and principal and interest will be paid by BOKF, NA (the “Paying Agent/Registrar”) which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See the Preliminary Official Statement (made a part hereof) for a more complete description of the Bonds, including redemption provisions. The Bonds will mature on September 1 in the years and amounts as follows:

MATURITY SCHEDULE

Maturity (September 1)	Principal Amount	Maturity (September 1)	Principal Amount
2019	\$ 65,000	2031	\$ 115,000
2020	70,000	2032	125,000
2021	70,000	2033	130,000
2022	75,000	2034	135,000
2023	80,000	2035	145,000
2024	85,000	2036	150,000
2025	90,000	2037	155,000
2026	90,000	2038	165,000
2027	95,000	2039	175,000
2028	100,000	2040	180,000
2029	105,000	2041	190,000
2030	110,000		

OPTIONAL REDEMPTION PROVISIONS . . . Bonds maturing on and after September 1, 2024, are subject to redemption prior to maturity, at the option of the District, as a whole or, from time to time in part, on September 1, 2023, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. 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.

MANDATORY SINKING FUND REDEMPTION . . . If the successful bidder designates principal amounts to be combined into one or more term bonds (“Term Bonds”), each such Term Bond shall be subject to mandatory sinking fund redemption commencing on September 1 of the first year which has been combined to form such Term Bond and continuing on September 1 in each year thereafter until the stated maturity date of that Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth above under the captioned “MATURITY SCHEDULE.” Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par by lot or other customary method. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of Term Bonds that have been redeemed in such year and have not been the basis for any prior optional redemption.

OTHER TERMS AND COVENANTS . . . Other terms of the Bonds and various covenants of the District are contained in the Bond Order, which is described in the Preliminary Official Statement, to which reference is made for all purposes.

SOURCE AND SECURITY OF PAYMENT . . . The Bonds will constitute valid and legally binding obligations of the District, with principal and interest payable solely from the proceeds of a continuing, direct, annual ad valorem tax levied against all taxable property located within the District, without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the City of Pflugerville, Texas; Pflugerville Independent School District; Travis County, Texas; the State of Texas or any entity other than the District.

BOOK-ENTRY-ONLY SYSTEM . . . The District intends to utilize the book-entry-only system of DTC. See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.

REGISTERED FORM REQUIREMENT . . . Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) must be in registered form in order for the interest payable on such obligations to be excluded from the Registered Owners’ income for federal income tax purposes.

SUCCESSOR PAYING AGENT/REGISTRAR . . . Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or any state thereof subject to supervision or examination by federal or state banking authorities.

CONDITIONS OF SALE

TYPES OF BIDS AND INTEREST RATES . . . The Bonds will be sold in one block on an “all or none” basis at a price of not less than ninety-seven percent (97%) of the par value. Bidders are to name the rate or rates of interest to be borne by the Bonds, provided that each interest rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1%. The net effective interest rate on the Bonds may not exceed a rate which is three percentage points (3.00%) above the highest “20 Bond Index” as reported by the “Bond Buyer” during the thirty (30) day period prior to the date of this Official Notice of Sale. Subject to the conditions below, no limitation will be imposed upon bidders as to the number of interest rates that may be used, but each rate of interest specified for the Bonds of any maturity shall not be less than the rate of interest specified for any earlier maturity and the highest interest rate bid may not exceed the lowest interest rate bid by more than 3.0% in rate. All Bonds maturing within a single year must bear the same rate of interest. No bids for the Bonds involving supplemental interest rates will be considered. Each bidder shall state in its bid the total and net interest cost in dollars and the net effective interest rate determined thereby, which shall be considered informative only and not as a part of the bid. No bid generating a cash premium greater than \$5,000 will be considered.

BASIS OF AWARD . . . For the purpose of awarding the sale of the Bonds, the interest cost of each bid will be computed by determining, at the interest rate or rates specified therein, the total dollar value of all interest on the Bonds from the date of Initial Delivery to their respective maturities and adding thereto any discount bid, if any, or subtracting therefrom any premium bid, if any. The District reserves the right to reject any or all bids and to waive any and all irregularities except time of filing. Subject to such rights, the Bonds will be awarded to the bidder whose bid, under the above computation, produces the lowest net effective interest rate to the District. In the event mathematical discrepancies between the interest rate or rates and the interest costs determined therefrom, as both appear on the Official Bid Form, the bid will be solely governed by the interest rates shown on the Official Bid Form.

ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTEREST PARTY FORM 1295: New obligation of the District to receive information from winning bidder. Effective January 1, 2016, pursuant to Texas Government Code Section 2252.908 (“the Interested Party Disclosure Act”), the District may not award the Bonds to the winning bidder unless the bidder has submitted a Certificate of Interested Parties Form 1295 (the “Disclosure Form”) to the District prior to such award, as prescribed by the Texas Ethics Commission (“TEC”). In the event that the bidder’s bid for the Bonds is the best bid received, the District, acting through

its financial advisor, will promptly notify the bidder. That notification will serve as the conditional verbal acceptance of the bid, and will obligate the bidder to promptly file a completed Disclosure Form, as described below, in order to complete the award.

Process for completing the Disclosure Form. Reference should be made the Disclosure Form, the rules of the TEC with respect to the Disclosure Form (the “Disclosure Rules”) and the Interested Party Disclosure Act. Instructional information regarding such matters are set forth at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm. For purposes of completing the Disclosure Form the Purchaser will need the following information: (a) item 2 – name of governmental entity: Kelly Lane Water Control and Improvement District No. 2 and (b) item 3 – the identification number assigned to this contract by the District: Kelly Lane ULT GO Bonds 2016, and a description of the services to be provided under the contract: Purchase of Bonds. The Interested Party Disclosure Act and the Disclosure Rules require a business entity contracting with the District to complete the form at the TEC Internet “portal” that may be accessed at the url set forth above, and then print, sign, notarize and deliver the Disclosure Form to the District at kelly_lane_wcid_2@abaustin.com and pearlson@abaustin.com. Following the award of the Bonds, the District will acknowledge receipt of the completed Disclosure Form through the TEC website, as required by the law.

Preparations and for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the bidder MUST BE ACKNOWLEDGED BY AND SUBMITTED UNDER A NOTARY STAMP. No exceptions may be made to that requirement. The Interested Party Disclosure Act provides that such acknowledgment is made “under oath and under penalty of perjury.” Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the District, and no award will be made by the District of the Bonds until a completed Disclosure Form is received. The District reserves the right to reject any bid that is not accompanied by a completed Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither have an obligation nor undertake responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the District that its bid is the conditional winning bid.

GOOD FAITH DEPOSIT . . . A Good Faith Deposit, payable to the “Kelly Lane Water Control and Improvement District No. 2” in the amount of \$54,000, is required. Such Good Faith Deposit shall be a wire transfer, bank cashier’s check or certified check (which is to be retained uncashed by the District pending the Initial Purchaser’s compliance with the terms of the bid and this Notice of Sale and Bidding Instructions). The Good Faith Deposit may be provided to the District via wire transfer (the District will provide wire instructions to the winning bidder), or in the form of a certified or cashier’s check. The Good Faith Deposit will be retained by the District and (a) (i) if the Initial Purchaser utilizes a cashier’s check as its Good Faith Deposit, said cashier’s check will be returned to the Initial Purchaser after delivery of the Bonds, (ii) if the Initial Purchaser utilizes a wire transfer method for its Good Faith Deposit, said wire transfer will be applied to the purchase price at the delivery of the Bonds; or (b) will be retained by the District as liquidated damages if the Initial Purchaser defaults with respect to its purchase of the Bonds in accordance with its bid; or (c) will be returned to the Initial Purchaser if the Bonds are not issued by the District for any reason which does not constitute a default by the Initial Purchaser.

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL BONDS . . . Initial delivery (“Initial Delivery”) will be accomplished by the issuance of one initial bond payable in installments (collectively, the “Initial Bond”), either in typed or printed form, in the aggregate principal amount of \$2,700,000, registered in the name of the Initial Purchaser, manually signed by the President or Vice President and Secretary or Assistant Secretary of the Board, or executed by the facsimile signatures of the President or Vice President and Secretary or Assistant Secretary of the Board, and approved by the Attorney General of Texas, and registered and manually signed by the Comptroller of Public Accounts of Texas or his authorized deputy. Upon delivery of the Initial Bond, the Paying Agent/Registrar shall immediately cancel the Initial Bond and one definitive Bond for each maturity will be registered and delivered only to Cede & Co. in connection with DTC’s book-entry-only system. Initial Delivery will be at a corporate trust office of the Paying Agent/Registrar in Austin, Texas. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Initial Purchaser will be given six (6) business days’ notice of the time fixed for delivery of the Bonds. It is anticipated that Initial Delivery can be made on or about November 9, 2016, and subject to the aforementioned notice it is understood and agreed that the Initial Purchaser will accept delivery of and make payment for the Bonds by 10:00 A.M., CDT, on November 9, 2016, or thereafter on the date the Bonds are tendered for delivery, up to and including November 23, 2016. If for any reason the District is unable to make delivery on or before November 23, 2016, then the District shall immediately contact the Initial Purchaser and offer to allow the Initial Purchaser to extend its offer for an additional thirty (30) days. If the Initial Purchaser does not elect to extend its offer within six (6) business days thereafter, then its Good Faith Deposit will be returned, and both the District and the Initial Purchaser shall be relieved of any further obligation.

CUSIP NUMBERS . . . It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale.

CUSIP identification numbers will be made available to the Initial Purchaser at the time the Bonds are awarded or as soon thereafter as practicable.

CONDITIONS TO DELIVERY . . . The obligation to take up and pay for the Bonds is subject to the following conditions: issuance of an approving opinion of the Attorney General of Texas, the Initial Purchaser's receipt of typewritten bonds, the legal opinion of Bond Counsel, and the No-Litigation Certificate, all of which are described herein, and the non-occurrence of the events described below under the caption "No Material Adverse Change." In addition, if the District fails to comply with its obligations described in the Preliminary Official Statement, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the District within five (5) days thereafter.

LEGAL OPINIONS . . . The District will furnish without cost to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the unqualified approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, and, based upon an examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principal of equity and to the effect that the interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS."

CERTIFICATION REGARDING OFFERING PRICE OF BONDS . . . In order to provide the District with information to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion of interest on the Bonds from gross income for federal income tax purposes, the Initial Purchaser will be required to complete, execute and deliver to the District (on or before the date of delivery of the Bonds) a certification regarding "issue price" substantially in the form accompanying this OFFICIAL NOTICE OF SALE. If the Initial Purchaser will not reoffer the Bonds for sale or has not sold a substantial amount of the Bonds of any maturity by the date of delivery, such certificate may be modified in a manner approved by the District. In no event will the District fail to deliver the Bonds as a result of the Initial Purchaser's inability to certify actual sales of Bonds at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute and deliver such a certificate by the date of delivery of the Bonds if its bid is accepted by the District. It will be the responsibility of the Initial Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

TEXAS BOND REVIEW BOARD INFORMATION . . . In order to provide the District with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Initial Purchaser will be required to provide the District with a breakdown of its "underwriting spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

NO-LITIGATION CERTIFICATE . . . With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Initial Purchaser a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the best knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the District to deliver the Bonds and of the Initial Purchaser to accept delivery of and pay for the Bonds are subject to the condition that to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the conditions of the District from those set forth in or contemplated by the Official Statement, as it may have been supplemented or amended through the date of sale.

QUALIFIED TAX-EXEMPT OBLIGATIONS . . . The District expects to designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Code and will represent that the total amount of tax-exempt obligations (including the Bonds) issued by it during the calendar year 2016 is not expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."

GENERAL CONSIDERATIONS

RISK FACTORS . . . The Bonds involve certain risk factors. Prospective bidders are urged to examine carefully the entire Preliminary Official Statement, made a part hereof, with respect to the investment security of the Bonds. Particular attention should be given to the information set forth therein under the caption “RISK FACTORS.”

RESERVATION OF RIGHTS . . . The District reserves the right to reject any and all bids and to waive any and all irregularities except time of filing.

NOT AN OFFER TO SELL . . . This Official Notice of Sale does not alone constitute an offer to sell the Bonds but is merely notice of sale of the Bonds. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form.

FINAL OFFICIAL STATEMENT . . . The District has prepared and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds, but does not presently intend to prepare any other document or version for such purpose except as described below. The District will be responsible for completing the Official Statement by inserting the interest rates and the purchase price bid by the Initial Purchaser and the initial public offering yields as provided by the Initial Purchaser to the District, and for preparing and inserting the final debt service schedule. The District does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below in “– Changes to Official Statement.” Accordingly, the District deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of SEC Rule 15c2-12(b)(1), except for the omission of the foregoing items. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the purchaser on or after the sale date, the District represents the same to be complete as of such date, within the meaning of SEC Rule 15c2-12(e)(3). Notwithstanding the foregoing, the only representations concerning the absence of material misstatements or omissions from the Official Statement which are or will be made by the District are those described in the Preliminary Official Statement under “PREPARATION OF OFFICIAL STATEMENT – Certification of Official Statement.”

CHANGES TO OFFICIAL STATEMENT . . . If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to 15c2-12 of the federal Securities Exchange Act of 1934 (the “Rule”) (the earlier of (i) 90 days from the “end of the underwriting period” (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the “end of the underwriting period”), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described above. See “DELIVERY AND ACCOMPANYING DOCUMENTS – Conditions to Delivery.” The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the “end of the underwriting period” within the meaning of the Rule), unless the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all the Bonds have been sold to ultimate customers (but not more than 90 days after the date the District delivers the Bonds to the Initial Purchaser). In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

DELIVERY OF OFFICIAL STATEMENTS . . . The District will furnish Official Statements to the Initial Purchaser (and to each participating member of the underwriting syndicate, if any, of the Bonds, within the meaning of the Rule, designated by the Initial Purchaser), within seven (7) business days after the sale date. The District will also furnish to the Initial Purchaser a like number of any supplement or amendment prepared by the District for dissemination to potential purchasers of the Bonds as described above as well as such additional copies of the Official Statement or any supplement or amendment as the Initial Purchaser may reasonably request as described above in “– Changes to Official Statement” above.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The offer and sale of the Bonds has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; and 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 acts of any other jurisdiction. 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 sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions. By submission of its bid, the Initial Purchaser represents that the sale of the Bonds in states other than the State of Texas will be made pursuant to exemptions from registration or qualification, or where necessary, the Initial Purchaser will register the Bonds in accordance with the securities laws of the state in which the Bonds are offered or sold. The District agrees to cooperate with the Initial Purchaser, at the Initial Purchaser’s written request and expense, in registering or qualifying the Bonds or obtaining an exemption from registration or qualification (other than filing a consent to service of process in such state), in any state where such action is necessary.

CONTINUING DISCLOSURE . . . The District will agree in the Bond Order to provide certain periodic information and notices of certain specified events in accordance with the Rule, as described in the Preliminary Official Statement under “CONTINUING DISCLOSURE OF INFORMATION.” The Initial Purchaser’s obligation to accept and pay for the Bonds is conditioned upon delivery to the Initial Purchaser(s) or its (their) agent of a certified copy of the Bond Order containing the agreement described under such heading.

ADDITIONAL COPIES OF DOCUMENTS . . . Additional copies of this Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form may be obtained from the Financial Advisor, Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746.

Mark Kalish, President
Board of Directors
Kelly Lane Water Control and Improvement District No. 2

September 21, 2016

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OFFICIAL BID FORM

President and Board of Directors
 Kelly Lane Water Control and Improvement District No. 2
 c/o Specialized Public Finance Inc.
 248 Addie Roy Road, Suite B-103
 Austin, Texas 78746

Board of Directors:

We have read in detail your Official Notice of Sale and accompanying Preliminary Official Statement dated September 21, 2016, relating to the Kelly Lane Water Control and Improvement District No. 2 (the "District") and its \$2,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds"), as made a part hereof. We realize that the Bonds involve certain risk factors, and we have made inspections and investigations as we deem necessary relating to the District and to the investment quality of the Bonds.

For your legally issued Bonds, in the aggregate principal amount of \$2,700,000, we will pay you a price of \$ _____, representing _____% of the par value. Such Bonds mature September 1, in each of the years and in the amounts and interest rates shown below:

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2019	\$ 65,000	%	2031	\$ 115,000	%
2020	70,000	%	2032	125,000	%
2021	70,000	%	2033	130,000	%
2022	75,000	%	2034	135,000	%
2023	80,000	%	2035	145,000	%
2024	85,000	%	2036	150,000	%
2025	90,000	%	2037	155,000	%
2026	90,000	%	2038	165,000	%
2027	95,000	%	2039	175,000	%
2028	100,000	%	2040	180,000	%
2029	105,000	%	2041	190,000	%
2030	110,000	%			

Of the principal maturities set forth in the table above, we have created term bonds as indicated in the following table (which may include multiple term bonds, one term bond or no term bond if none is indicated). For those years which have been combined into a term bond, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term bond maturity date shall mature in such year. The term bonds created are as follows:

<u>Term Bonds Maturing September 1</u>	<u>Year of First Mandatory Redemption</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
		\$ _____	% _____
		\$ _____	% _____
		\$ _____	% _____
		\$ _____	% _____
		\$ _____	% _____

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TOTAL INTEREST COST FROM 11/9/2016	\$ _____
PLUS DOLLAR AMOUNT OF DISCOUNT	\$ _____
NET INTEREST COST	\$ _____
NET EFFECTIVE INTEREST RATE	_____ %

A wire transfer or a cashiers or certified check to the District in the amount of \$54,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the District as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

The undersigned agrees to complete, execute, and deliver to the District, by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District.

We understand the sale of the Bonds has not been registered under the United States 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 acts of any other jurisdiction. We hereby represent the sale of the Bonds in jurisdictions other than Texas will be made only pursuant to exemptions from registration or qualification and that where necessary, we will register or qualify the Bonds in accordance with the securities laws and regulations of the jurisdiction in which the Bonds are offered or sold.

We further understand that the District assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement or other information concerning the District and the Bonds to anyone other than to us.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Syndicate Members:

Name of Initial Purchaser or Manager

Authorized Representative

Phone Number

Signature

Please check one of the options below regarding Good Faith Deposit:

Submit by Wire Transfer

Submit by Bank Cashier's/Certified Check

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by Kelly Lane Water Control and Improvement District No. 2 this the 3rd day of October, 2016.

ATTEST:

Secretary
Board of Directors

President
Board of Directors

ISSUE PRICE CERTIFICATE

The undersigned hereby certifies with respect to the sale of the Kelly Lane Water Control and Improvement District No. 2 Unlimited Tax Bonds, Series 2016 (the "Bonds"), issued in the aggregate principal amount of \$2,700,000, as follows:

1. The undersigned is the duly authorized representative of the purchaser (the "Initial Purchaser") of the Bonds from the District.
2. All of the Bonds have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Initial Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
3. Each maturity of the Bonds was offered to the public at a price which, on the date of such offering, was reasonably expected by the Initial Purchaser to be equal to the fair market value of such maturity.
4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Bonds was sold to the public is set forth below.

Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)
\$ 65,000	2019	%	\$ 115,000	2031	%
70,000	2020	%	125,000	2032	%
70,000	2021	%	130,000	2033	%
75,000	2022	%	135,000	2034	%
80,000	2023	%	145,000	2035	%
85,000	2024	%	150,000	2036	%
90,000	2025	%	155,000	2037	%
90,000	2026	%	165,000	2038	%
95,000	2027	%	175,000	2039	%
100,000	2028	%	180,000	2040	%
105,000	2029	%	190,000	2041	%
110,000	2030	%			

5. In the case of the Retained Maturities, the Initial Purchaser reasonably expected on the offering date to sell a substantial amount (i.e., at least ten (10) percent) of each Retained Maturity at the initial offering price/yield as set forth below:

Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)
\$	2019	%	\$	2031	%
	2020	%		2032	%
	2021	%		2033	%
	2022	%		2034	%
	2023	%		2035	%
	2024	%		2036	%
	2025	%		2037	%
	2026	%		2038	%
	2027	%		2039	%
	2028	%		2040	%
	2029	%		2041	%
	2030	%			

6. The undersigned understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Federal Tax Certificate prepared by the District in connection with the issuance of the Bonds and by McCall, Parkhurst & Horton L.L.P. (i) in connection with rendering its opinion to the district that interest on the Bonds is excludable from gross income thereof for income tax purposes, and (ii) for purposes of completing the IRS Form 8038-G. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws or the application of any laws to these facts.

EXECUTED and DELIVERED this _____ day of _____, 2016.

Name of Purchaser or Manager

By: _____

Title: _____

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This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT

Dated September 21, 2016

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER “TAX MATTERS” HEREIN INCLUDING THE ALTERNATIVE MINIMUM TAX ON CORPORATIONS.

THE BONDS WILL BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS”
FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS.”

NEW ISSUE – Book-Entry Only

\$2,700,000

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
(A Political Subdivision of the State of Texas Located in Travis County, Texas)
UNLIMITED TAX BONDS, SERIES 2016

Dated: October 1, 2016

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

Interest to accrue from the date of Initial Delivery (as defined below)

The bonds described above (the “Bonds”) are obligations solely of Kelly Lane Water Control and Improvement District No. 2 (the “District”) and are not obligations of the State of Texas (“State”), Travis County (the “County”), the City of Pflugerville (the “City”), Pflugerville Independent School District or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See “RISK FACTORS.”

PAYMENT TERMS . . . Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially BOKF, NA, Austin, Texas, (the “Paying Agent” or the “Paying Agent/Registrar”) upon surrender of the Bonds for payment. Interest on the Bonds will accrue from the date of Initial Delivery (as defined herein) and will be payable each March 1 and September 1, commencing March 1, 2017, until maturity or prior redemption. Interest on the Bonds accrues from the date of Initial Delivery and will be payable on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity as provided on page 2.

The Bonds will be registered in the name of 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 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.”

PURPOSE . . . Proceeds of the Bonds will be used to finance the District’s share of the following projects: (i) Avalon Phase 9A water, wastewater and drainage; (ii) water impact fees for Manville Water Supply Corporation; (iii) City of Pflugerville wastewater impact fees; and (iv) map revision fees. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months’ interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain legal and engineering costs associated with the issuance of the Bonds.

CUSIP PREFIX: 488133
MATURITY SCHEDULE
SEE INSIDE COVER PAGE

LEGALITY . . . The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel.

DELIVERY . . . Delivery of the Bonds is expected through the facilities of DTC on November 9, 2016 (“Initial Delivery”).

BIDS DUE ON MONDAY, OCTOBER 3, 2016, BY 9:30 AM, CDT

MATURITY SCHEDULE

9/1 Maturity	Principal Amount	Interest Rate	Initial Yield ^(a)	CUSIP Numbers ^(b)
2019	\$ 65,000			
2020	70,000			
2021	70,000			
2022	75,000			
2023	80,000			
2024	85,000			
2025	90,000			
2026	90,000			
2027	95,000			
2028	100,000			
2029	105,000			
2030	110,000			
2031	115,000			
2032	125,000			
2033	130,000			
2034	135,000			
2035	145,000			
2036	150,000			
2037	155,000			
2038	165,000			
2039	175,000			
2040	180,000			
2041	190,000			

(Interest to accrue from the date of Initial Delivery)

- (a) Initial yield represents the initial offering yield to the public, which has been established by the Initial Purchaser for offers to the public and which subsequently may be changed.
- (b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

REDEMPTION PROVISIONS . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024 in whole or from time to time in part, on September 1, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Initial Purchaser elects to aggregate two or more maturities as term Bonds. See “THE BONDS – Redemption.”

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For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, this document constitutes a Preliminary Official Statement of the District with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the District 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. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein 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.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND, CONSEQUENTLY, HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

SALE AND DISTRIBUTION OF THE BONDS

AWARD OF THE BONDS . . . After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by _____ (the "Initial Purchaser") bearing the interest rates shown on the inside cover page hereof, at a price of _____ % of the par value thereof which resulted in a net effective interest rate of _____ % as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the "IBA" method).

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

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

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

SECURITIES LAWS . . . No registration statement relating to the offer and sale of the Bonds has been filed with the 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 and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND RATINGS AND INSURANCE

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

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE DISTRICT

THE ISSUER..... Kelly Lane Water Control and Improvement District No. 2 (the “District”), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), effective May 26, 2005 and confirmed pursuant to an election held within the District on November 7, 2006. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater as well as providing and operating park and recreational facilities, and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended. See “THE DISTRICT – General.”

LOCATION..... The District, which encompasses approximately 212.37 acres of land, is located in northeast Travis County and lies approximately five miles northeast of downtown of the City of Pflugerville, Texas (“Pflugerville”). The District is located approximately one mile east of SH 130 and is bounded to the south by Kelly Lane WCID No. 1 and on the east by Hodde Lane. The Austin central business district is approximately 15 miles to the southwest and the Pflugerville central business district is approximately 5 miles southwest of the District. See “THE DISTRICT – Location.”

THE DEVELOPER The developer currently active within the District is KM Avalon, Ltd. (“KM” or the “Developer”), a Texas limited partnership whose general partner is KM Avalon GP, Inc., a Texas corporation, of which Blake Magee is the president and Bill Kochwelp is the vice-president. See “THE DEVELOPER – Description of Developer” and “THE DISTRICT – Current Status of Development.” KM Weiss Lane, L.P. (“KM Weiss”), a Texas limited partnership, and an affiliated entity of the Developer, purchased land within the District and sold a portion of the land it purchased to Pulte Homes. See “DESCRIPTION OF OTHER LANDOWNERS.”

DEVELOPMENT WITHIN THE DISTRICT Of the approximately 212.37 acres within the District, approximately 174.37 are developable under current land development regulations. As of August 4, 2016, approximately 157.38 acres (or 90.3% of the developable acreage within the District) have been or are being developed with utility facilities as the single family residential subdivision of Avalon. As of August 4, 2016, the following sections have been developed with utility facilities: Phases 9A-C, 10, 11A-B, 12A, 13A, 15A-B and 16A. As of August 4, 2016, the development in the District consisted of 530 developed single family lots, 225 completed homes (of which 203 are occupied and 22 are unoccupied), 52 homes under construction, and 253 vacant single family lots.

To date, the developer has advanced funds in the approximate amount of \$18,750,000 to construct water, wastewater and drainage facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the developer approximately \$14,200,000 for additional water, wastewater and drainage facilities which have been constructed to date. See “THE DISTRICT – Current Status of Development.”

HOMEBUILDERS..... According to the Developer, there are currently four homebuilders active within the District: Pulte Homes, Castle Rock Communities, Gehan Homes and Chesmar Homes, building homes in three lot sizes (50’, 55’ and 60’). The homes range in price from \$175,000 to \$350,000, with square footage ranging from 1,600 to 4,000. See “THE DEVELOPER – Homebuilders within the District.”

THE BONDS

DESCRIPTION	The Bonds in the aggregate principal amount of \$2,700,000 mature serially in varying amounts on September 1 of each year from 2019 through 2041, inclusive, in the principal amounts set forth on the inside cover page hereof. Interest accrues from the date of Initial Delivery and is payable March 1, 2017 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See “THE BONDS – General Description.”
REDEMPTION	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024 in whole or from time to time in part, on September 1, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Initial Purchaser elects to aggregate two or more maturities as term Bonds. See “THE BONDS – Redemption.”
SOURCE OF PAYMENT	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See “TAXING PROCEDURES.” The Bonds are obligations solely of the District and are not obligations of the City of Pflugerville; Pflugerville Independent School District; Travis County, Texas; the State of Texas; or any entity other than the District. See “THE BONDS – Source of and Security for Payment.”
PAYMENT RECORD	The Bonds constitute the second installment of bonds issued by the District for construction of the water, sanitary sewer and drainage system (the “System”). See “FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued.”
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 51 of the Texas Water Code, as amended, a bond election held within the District on November 7, 2006, the approving order of the TCEQ and an order (the “Bond Order”) adopted by the Board of Directors of the District on the date of the sale of the Bonds. See “THE BONDS – Authority for Issuance.”
USE OF PROCEEDS	The proceeds of the Bonds will be used to finance the District’s share of the following projects: (i) Avalon Phase 9A water, wastewater and drainage; (ii) water impact fees for Manville Water Supply Corporation; (iii) City of Pflugerville wastewater impact fees; and (iv) map revision fees. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months’ interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain legal and engineering costs associated with the issuance of the Bonds. The estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$1,958,811 is estimated to be required for construction costs, and \$741,189 is estimated to be required for non-construction costs including \$270,000 of capitalized interest (approximately twenty-four months’ interest at an estimated interest rate of 5.00%). See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
BONDS AUTHORIZED BUT UNISSUED	At an election held within the District on November 7, 2006, the voters within the District approved the issuance of \$22,210,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$16,210,000 remaining in authorized but unissued bonds. Additionally, at the election held in the District on November 7, 2006, the voters within the District also approved the issuance of \$35,000,000 in refunding bonds, \$3,295,000 in bonds for the acquisition and construction of parks and recreational facilities. The District has not issued any park and recreational facilities bonds or refunding bonds. See “FINANCIAL STATEMENT – Outstanding Bonds” and “THE BONDS – Future Debt.”

MUNICIPAL BOND RATING AND INSURANCE	The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. No application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance.
QUALIFIED TAX-EXEMPT OBLIGATIONS.....	The District expects to designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and have represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2016 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”
BOND COUNSEL & DISCLOSURE COUNSEL.....	McCall, Parkhurst & Horton L.L.P., Austin, Texas
GENERAL COUNSEL.....	Armbrust & Brown, PLLC, Austin, Texas
FINANCIAL ADVISOR	Specialized Public Finance Inc., Austin, Texas
ENGINEER	Jones-Heroy & Associates, Inc., Pflugerville, Texas

RISK FACTORS

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

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SELECTED FINANCIAL INFORMATION
(Unaudited as of June 19, 2016)

2014 Certified Taxable Assessed Valuation	\$ 7,338,961	(a)
2015 Certified Taxable Assessed Valuation	\$ 23,769,769	(a)
2016 Certified Taxable Assessed Valuation	\$ 51,302,294	(b)
Estimated Taxable Assessed Valuation (as of August 5, 2016)	\$ 60,224,352	(b)
Gross Direct Debt Outstanding	\$ 6,000,000	(c)
Estimated Overlapping Debt	<u>5,176,960</u>	(d)
Gross Direct Debt Outstanding and Estimated Overlapping Debt	\$ 11,176,960	
Ratios of Gross Direct Debt Outstanding to:		
2016 Certified Taxable Assessed Valuation		11.70%
Estimated Taxable Assessed Valuation (as of August 5, 2016)		9.96%
Ratios of Gross Direct Debt Outstanding and Estimated Overlapping Debt to:		
2016 Certified Taxable Assessed Valuation		21.79%
Estimated Taxable Assessed Valuation (as of August 5, 2016)		18.56%
2015 Tax Rate:		
Debt Service	\$ 0.6000	
Maintenance & Operation	<u>0.3500</u>	
Total	\$ 0.9500	(e)
General Operating Fund Balance as of August 1, 2016	\$ 197,492	
Capital Projects Fund Balance as of August 1, 2016	\$ 368,566	
Interest & Sinking Fund Balance as of August 1, 2016	\$ 327,707	
Projected Average Annual Debt Service Requirement (2016-2041)	\$ 392,344	(c)
Projected Maximum Annual Debt Service Requirement (2040)	\$ 453,300	(c)
Tax Rates Required to Pay Projected Average Annual Debt Service (2016-2041) at a 95% Collection Rate		
Based upon 2016 Certified Taxable Assessed Valuation	\$ 0.8051	(a)
Based upon August 5, 2016 Estimated Taxable Assessed Valuation	\$ 0.6858	(b)
Tax Rates Required to Pay Projected Maximum Annual Debt Service (2040) at a 95% Collection Rate		
Based upon 2016 Certified Taxable Assessed Valuation	\$ 0.9301	(a)
Based upon August 5, 2016 Estimated Taxable Assessed Valuation	\$ 0.7923	(b)

Number of Active Connections as of August 5, 2016:	
Total Developed Single Family Lots	530
Single Family Homes – Complete and Occupied	203
Single Family Homes – Complete and Unoccupied	22
Single Family Homes– Under Construction	52
Single Family Lots – Vacant	253
Estimated Population as of August 5, 2016	710 (f)

- (a) Assessed valuation of the District as certified by the Travis Central Appraisal District (“TCAD”). See “TAXING PROCEDURES.”
- (b) The Estimated Assessed Valuation as of August 5, 2016, as provided by TCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by TCAD. See “TAXING PROCEDURES.”
- (c) Includes the Bonds. See “DEBT SERVICE REQUIREMENTS.”
- (d) See “DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt.”
- (e) The District levied a 2016 total tax rate of \$0.9500. See “Table 9 – District Tax Rates.”
- (f) Based upon 3.5 residents per completed and occupied single family home.

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OFFICIAL STATEMENT

Relating to

\$2,700,000

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

(A Political Subdivision of the State of Texas Located in Travis County, Texas)

UNLIMITED TAX BONDS, SERIES 2016

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by the Kelly Lane Water Control and Improvement District No. 2 (the "District"), a political subdivision of the State of Texas (the "State"), of its \$2,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds").

The Bonds are issued pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, pursuant to Article XVI, Section 59 of the Constitution and general laws of the State, including Chapters 49 and 51 of the Texas Water Code, as amended, a bond election held within the District on November 7, 2006, and the approving order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission").

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

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

THE BONDS

GENERAL DESCRIPTION . . . The Bonds are dated October 1, 2016 and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will accrue from the date of Initial Delivery, expected to occur on November 9, 2016, and will be paid on March 1, 2017 and each September 1 and March 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Austin, Texas (the "Paying Agent" or "Paying Agent/Registrar").

REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2024, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on September 1, 2023, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

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

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

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will

have been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

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

Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

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

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

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

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

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

AUTHORITY FOR ISSUANCE . . . At an election held within the District on November 7, 2006, voters within the District authorized a total of \$22,210,000 in unlimited tax bonds for water, wastewater and drainage facilities. The Bonds constitute the second installment of bonds issued by the District. After the sale of the Bonds, \$16,210,000 principal amount of District bonds will remain authorized but unissued for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 7, 2006, the voters within the District also approved the issuance of \$35,000,000 in refunding bonds, and \$3,295,000 in bonds for the acquisition and construction of parks and recreational facilities. The District has not issued any park and recreational facilities bonds or refunding bonds. The Bonds are issued pursuant to the terms and provisions of the Bond Order; Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by an order of the TCEQ.

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

Under Texas law, the District may be dissolved by the City of Pflugerville (the "City") without the consent of the District or its residents. When the District is abolished, the City must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes will terminate. No representation is made concerning the likelihood of dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

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

PAYMENT RECORD . . . The District has not previously defaulted on any outstanding debt. Approximately twenty-four months' capitalized interest is included in the proceeds of the Bonds.

FLOW OF FUNDS . . . The Bond Order creates the establishment and maintenance by the District of a Debt Service Fund and a Capital Projects Fund.

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

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

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

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

DEFEASANCE OF OUTSTANDING BONDS . . . General . . . The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by

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

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

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

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

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

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

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

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

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

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

ISSUANCE OF ADDITIONAL DEBT . . . Additionally, at the election held in the District on November 7, 2006, the voters within the District also approved the issuance of \$35,000,000 in refunding bonds, \$3,295,000 in bonds for the acquisition and construction of parks and recreational facilities. See “FINANCIAL STATEMENT – Authorized But Unissued Bonds.” The District has not issued any park and recreational facilities bonds or refunding bonds. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the Bonds. See “RISK FACTORS.”

According to the District’s engineer, the \$16,210,000 in principal amount of bonds authorized but unissued (after issuance of the Bonds), should be sufficient to reimburse the developer for the water, wastewater and drainage development within the District. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue refunding bonds, as well as revenue bonds and notes without voter approval. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

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

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

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

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

REMEDIES IN EVENT OF DEFAULT . . . The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 51 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District’s obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. CT. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a

judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

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

ANNEXATION . . . The District lies within the extraterritorial jurisdiction of the City of Pflugerville, Texas ("Pflugerville"). Under Texas law, Pflugerville cannot annex territory within a district unless it annexes the entire district. At such time as it is permissible pursuant to law for the District to be annexed, and Pflugerville does annex, Pflugerville will assume the District's assets and obligations (including the debt service on the Bonds) and dissolve the District. Annexation of territory by Pflugerville is a policy-making matter within the discretion of the Mayor and City Council of Pflugerville and therefore, the District makes no representation that Pflugerville will ever annex the District and assume its debt.

Pursuant to the Comprehensive Development Agreement between KM Kelly Lane, Ltd., the predecessor in interest to Developer, and Pflugerville effective August 30, 2004 (as amended, the "Comprehensive Development Agreement"), Pflugerville agreed to not annex the District prior to the earlier of: (i) 20 years after the date the District is created; or (ii) such time as the District bonds needed to fund all of the water, wastewater and drainage facilities required to serve the District as authorized under the Comprehensive Development Agreement have been issued and 90% of the facilities within the District for which District bonds were issued have been constructed.

ALTERATION OF BOUNDARIES . . . In certain circumstances, under Texas law the District may alter its boundaries to: i) upon satisfying certain conditions, annex additional territory; and ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied including the District simultaneously annexes land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District would affect any change in its boundaries.

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

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

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BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest 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 certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District

as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, 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-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

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USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance the District’s share of the following projects: (i) Avalon Phase 9A water, wastewater and drainage; (ii) water impact fees for Manville Water Supply Corporation; (iii) City of Pflugerville wastewater impact fees; and (iv) map revision fees. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months’ interest requirements on the Bonds; (ii) pay developer interest and (iii) pay certain legal and engineering costs associated with the issuance of the Bonds.

The estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$1,958,811 is estimated to be required for construction costs, and \$741,189 is estimated to be required for non-construction costs including \$270,000 of capitalized interest (approximately twenty-four months’ interest at an estimated interest rate of 5.00%).

SUMMARY OF COSTS

I. <u>CONSTRUCTION COSTS</u>	<u>District’s Share</u>
A. Developer Contribution Items	
1. Avalon Phase 9A – Water, Wastewater and Drainage	\$ 199,000
Total Developer Costs	\$ 199,000
B. District Items	
1. Water Impact Fees – MWSC	\$ 988,400
2. Wastewater Impact Fees to City of Pflugerville	961,925
3. Letter of Map Revision	69,503
Total District Costs	\$ 2,019,828
Total Construction Costs	\$ 2,218,828
Less: Use of Surplus Funds	(260,017)
Net Total Construction Costs (72.55% of Bond Issue Requirement)	\$ 1,958,811
II. <u>NON-CONSTRUCTION COSTS</u>	
A. Legal Fees (3.0%)	\$ 81,000
B. Fiscal Agent Fees (1.75%)	47,250
C. Interest:	
a. Capitalized Interest (24 months at 5.00%)	270,000
b. Developer Interest ^(a)	105,571
D. Bond Discount (3%)	81,000
E. Bond Issuance Expenses	21,374
F. Bond Operating Expenses	87,544
G. Bond Application Report	38,000
H. Attorney General Fee (0.10%)	2,700
I. TCEQ Fee (0.25%)	6,750
J. Contingency ^(b)	0
Total Non-Construction Costs	\$ 741,189
TOTAL BOND ISSUE REQUIREMENT	\$ 2,700,000

(a) Based on an estimated interest rate of 5.00% and a projected funding date of July 1, 2016. The District has requested to reimburse more than two years of interest in accordance with 30 TAC § 293.50(b). Preliminary; subject to change. The amount of Developer interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.

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

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RISK FACTORS

GENERAL . . . The Bonds, which are obligations of the District and are not obligations of the State of Texas; Travis County, Texas; the City of Pflugerville; Pflugerville Independent School District, or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property located within the District. See “THE BONDS – Source of and Security for Payment.” The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See “Registered Owners’ Remedies” below.

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

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which the Developer and Homebuilders are able to obtain financing for development and construction costs. As a result of increasing foreclosure activity, potential adverse impact on assessed valuations and a general tightening of credit that has resulted, lenders have increased lending requirements for both single-family mortgage lending and real estate development lending. Additionally, lenders have been selective in recent years in making real estate development loans in the Austin area because of the negative impact to their real estate portfolios. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

National Economy: Nationally, there has been a significant downturn in new housing construction due to the lack of liquidity and other factors, resulting in a decline in housing market values. The ability of individuals to qualify for a mortgage as well as the general reduction in mortgage availability has also decreased housing sales. The Austin area, including the District, has experienced reduced levels of home construction and home sales activity. The District cannot predict what impact, if any, a continued downturn in the national housing and financial markets may have on the Central Texas market and the District.

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

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

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

Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2016 Certified Assessed Valuation is \$51,302,294 (see “FINANCIAL STATEMENT”). The TCAD estimated assessed valuation as of August 5, 2016 is \$60,224,352. After issuance of the Bonds, the Projected Maximum Annual Debt Service Requirement will be \$453,300 (2040) and the Projected Average Annual Debt Service Requirement will be \$392,344 (2016 through 2040, inclusive).

A tax rate of \$0.9301/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Projected Maximum Annual Debt Service Requirement of \$453,300, and a tax rate of \$0.8051/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Projected Average Annual Debt Service Requirement of \$392,344 based upon the 2016 Certified Taxable Assessed Valuation.

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

TAX COLLECTIONS AND FORECLOSURE REMEDIES . . . The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other 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 cumbersome, time-consuming and expensive collection procedures or 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 "FINANCIAL STATEMENT – Estimated Overlapping Debt Statement"), by the current aggregate tax rate being levied against the property, and by other factors (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records). Finally, any 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. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy court could approve a confirmation plan which allows the debtor to make installment payments on delinquent taxes for up to six years and a bankruptcy court may reduce the amount of any taxes assessed against the debtor, including those that have already been paid.

HOUSING MARKET, VOLATILITY AND RECENT FORECLOSURES . . . In recent years, disruptions in the housing market have led to a significant number of foreclosures on single family homes nationwide. In the District, there have been no posted foreclosures on single-family homes according to the Travis County Clerk's Office for the period between January 1, 2016 and August 4, 2016. No assurance can be given whether the number of foreclosures will decrease or increase or that market conditions will remain as they are today.

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

BANKRUPTCY LIMITATION TO REGISTERED OWNERS' RIGHTS . . . The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismissed the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is specifically authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law a water control and improvement district, such as the District, must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning district relief from its creditors. While

such a decision might be applicable, the concomitant delay and loss of remedies to the registered owners could potentially and adversely impair the value of the registered owner's claim.

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

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

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

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

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

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

FUTURE DEBT . . . The District has reserved in the Bond Order the right to issue the remaining \$16,210,000 authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$16,210,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. In the opinion of the District's engineer, the remaining authorization should be sufficient to reimburse the Developer for the development within the District. See "THE SYSTEM."

To date, the Developer has advanced a total of approximately \$18,750,000 to construct utility facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the Developer approximately \$14,200,000 for additional facilities which have been constructed to date.

The District anticipates that it may issue the full principal amount of authorized but unissued bonds for water, wastewater and drainage facilities (\$16,210,000), in installments over the next several years. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see "THE DEVELOPER – Utility Development Agreements." Additionally, the District has reserved the right to issue the remaining \$3,295,000 authorized but unissued unlimited tax bonds for the acquisition and construction of parks and recreational facilities and such bonds may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without

any corresponding increases in taxable value in the District. See “THE BONDS – Issuance of Additional Debt.” See “UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED.”

GOVERNMENTAL APPROVAL . . . As required by law, engineering plans, specifications and an estimate of construction costs for the facilities and services to be purchased or constructed by the District with the proceed of the Bonds have been approved, subject to certain condition, by the TCEQ. See “USE AND DISTRIBUTION OF BOND PROCEEDS.” The TCEQ approved the issuance of the Bonds by an order signed August 5, 2016. In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

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

TAX-EXEMPT PROPERTY, STRATEGIC HOUSING FINANCE CORPORATION OF TRAVIS COUNTY . . . Within the District there is the potential for property to be owned by the “Strategic Housing Finance Corporation of Travis County” (“SHFC”), a public nonprofit housing finance corporation established in 2004 pursuant to Chapter 394 of the Texas Local Government Code (the “Texas Housing Finance Corporations Act”). SHFC operates a lease-to-purchase affordable housing program for low to moderate income families in Travis County that was initially financed with the proceeds of \$35 million in Lease Purchase Revenue Bonds issued by SHFC in 2004. Pursuant to the program as currently structured by SHFC, low to moderate income families in Travis County pay a fee to SHFC which purchases a home and leases it back to the family for a period of thirty-nine (39) months. Under the Texas Housing Finance Corporations Act, all property owned by a nonprofit housing finance corporation, such as SHFC, is tax exempt, therefore during the thirty-nine (39) month term of the lease, during which SHFC owns the home, that property is removed from the tax rolls of the District. If the tenant vacates the property or cannot afford to assume the mortgage at the end of the lease term, then the property may remain tax exempt indefinitely. As of January 1, 2013, there are no homes within the District that are owned by SHFC. Because the SHFC program is between itself and an individual resident, the District cannot make any projection regarding the future impact the SHFC program may have on its taxable appraised values. It is not known whether SHFC will seek additional funding for its program in the future or alter the terms and leasing arrangements at which it offers homes through its programs. Additionally, taxable appraised values may also be adversely affected if similar lease-to-purchase affordable housing programs are instituted by other corporations created under the Texas Housing Finance Corporations Act.

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the TCEQ may impact new industrial, commercial and residential development in the Austin area. Under the Clean Air Act (“CAA”) Amendments of 1990, the five-county “Austin Area” – Travis, Hays, Williamson, Bastrop, and Caldwell counties – has recently been redesignated by the EPA as an attainment area. The Austin Area entered into an early action compact (EAC) with the TCEQ and EPA which demonstrates attainment and maintenance of the 8-hour ozone standard. EACs allow regions that are in nonattainment or near nonattainment for ozone under the federal CAA to elect to use their knowledge of local conditions to determine which ozone control strategies should be implemented in their area, as opposed to having rules dictated by state and federal agencies.

The EPA signed a consent decree with several environmental organizations which bound the EPA to designating nonattainment areas for 8-hour nonattainment. The Austin Area took early action with an EAC on November 17, 2004 to reduce its emissions so as not to be designated nonattainment. Voluntary reductions have focused on reducing the number of vehicles on Austin Area roads, since vehicles are the area’s main source of air pollution.

The area will report semi-annually on the progress of their control measures. Under the EACs, attainment must have been demonstrated by 2007. EPA approved the photochemical modeling in support of the attainment demonstration for the 8-hour ozone standard within the Austin Area on August 15, 2005. EPA also approved the Austin EAC “CAAP” which includes control measures

and demonstrates maintenance of the standard through 2012 (including a vehicle inspection and maintenance (I/M) program). These steps and any EPA/TCEQ responses could impact the economy and communities in the Austin Area.

On November 26, 2014, the EPA announced a new proposed ozone National Ambient air Quality Standards (NAAQS) range of between 65-70 parts per billion. The Austin Area is vulnerable to being designated nonattainment if the EPA adopts the new proposed ozone NAAQS or otherwise maintains the existing standard applied to more recent air quality monitoring data.

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

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

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

Pursuant to the Safe Drinking Water Act, potable (drinking) water provided by the District to more than sixty (60) end users for consumption will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as arsenic, lead, radon, and disinfection by-products (e.g. chlorine). Additionally, TCEQ is initiating rule changes to Chapter 290, Public Drinking Water, to implement the federal Stage 2 Disinfection Byproducts Rule (DBP2), Long Term Stage 2 Enhanced Surface Water Treatment Rule (LT2), and Ground Water Rule (GWR). EPA adopted the GWR on October 11, 2006. Future regulations or requirements pertaining to these and other drinking water contaminants could require installation of more costly treatment facilities.

Operation of the District's sewer facilities is subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads ("TMDLs") rules can have a significant impact on the District's ability to obtain TPDES permits and maintain those permits. The District may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties. Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and proposed two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

Operations of the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

DROUGHT CONDITIONS . . . Central Texas, like other areas of the State, has experienced extreme drought conditions. The District adopted a water conservation plan and currently has previously implemented water restrictions for residents of the District. The Manville Water Supply Corporation provides water to the District in amounts sufficient to service the residents of the District, however, as drought conditions emerge water usage, rates and water revenues could be impacted.

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

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

THE DISTRICT

GENERAL . . . Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 51 of the Texas Water Code, as amended, the District is subject to the continuing supervision of the TCEQ. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water and the operation of park and recreational facilities. Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code, certain districts, such as the District, may issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of water, wastewater, drainage, park and recreational facilities. The District may also establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ, and is located entirely within the extraterritorial jurisdiction of Pflugerville. Fire services are provided to residents and property owners of the District by Travis County Emergency Services District No. 2.

MANAGEMENT . . . *Board of Directors.* The District is governed by a Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors’ terms are four years with elections held within the District on the first Tuesday after the first Monday in November in each even numbered year. All of the directors listed below reside or own property in the District.

Name	Title	Term Expires
Mark E. Kalish	President	2018
David P. Parkerson	Vice President	2018
Kenny Dryden	Secretary	2018
Whitney Withers	Assistant Secretary	2016
Catherine G. Mitchell	Assistant Secretary	2016

Consultants:

Tax Assessor/Collector . . . Land and improvements in the District are being appraised by the Travis Central Appraisal District (“TCAD”). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Travis County Tax Assessor/Collector, Mr. Bruce Elfant, currently serves the District in this capacity under contract.

Operator . . . The District contracts with the City of Pflugerville to serve as operator for the District.

Bookkeeper . . . Bott & Douthitt, P.L.L.C (“B&D”) is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 32 other special districts.

Engineer . . . The District’s consulting engineer is Jones-Heroy & Associates, Inc. (the “Engineer”). Such firm serves as consulting engineer to 34 other special districts.

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

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

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

LOCATION . . . The District, which encompasses approximately 212.37 acres of land, is located in northeast Travis County and lies approximately five miles northeast of downtown of the City. The District is located approximately one mile east of SH 130 and is bounded to the south by Kelly Lane WCID No. 1 and on the east by Hodde Lane. The Austin central business district is approximately 15 miles to the southwest and the Pflugerville central business district is approximately 5 miles southwest of the District. See “LOCATION MAP.”

CURRENT STATUS OF DEVELOPMENT . . . Of the approximately 212.37 acres within the District, approximately 174.37 are developable under current land development regulations. As of August 4, 2016, approximately 157.38 acres (or 90.3% of the developable acreage within the District) have been or are being developed with utility facilities as the single family residential subdivision of Avalon. As of August 4, 2016, the following sections have been developed with utility facilities: Phases 9A-C, 10, 11A-B, 12A, 13A, 15A-B and 16A. As of August 4, 2016, the development in the District consisted of 530 developed single family lots, 225 completed homes (of which 203 are occupied and 22 are unoccupied), 52 homes under construction, and 253 vacant single family lots.

To date, the developer has advanced funds in the approximate amount of \$18,750,000 to construct water, wastewater and drainage facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the developer approximately \$14,200,000 for additional water, wastewater and drainage facilities which have been constructed to date.

The chart below reflects the status of development as of August 4, 2016:

	<u>Net Acreage</u>
A. Sections Developed with Utility Facilities	
Avalon Phases 9A-C, 10, 11A-B, 12A, 13A, 15A-B and 16A	157.38
B. Sections Under Construction	<u>0</u>
Total Developed with Utility Facility or Under Construction	157.38
C. Remaining Developable Acreage	16.99
Total Developable Acreage	174.37
D. Undevelopable Acreage	<u>38.00</u>
Total	<u>212.37</u>

FUTURE DEVELOPMENT . . . The remaining undeveloped but developable 16.99 acres in the District are expected to be developed as single family residential. The initiation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, general and economic conditions which would affect any party’s ability to sell lots and/or other property and of any home builder to sell completed homes as described in this Official Statement under the caption “RISK FACTORS.” If the undeveloped portion of the District is eventually developed, additions to the District’s water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues of the District’s bonds and developer contributions, if any, as required by the TCEQ. The District’s Engineer estimates that the \$16,210,000 remaining principal amount of voted water, wastewater, and drainage bonds which are authorized to be issued should be sufficient to reimburse the Developer for the existing utility facilities and provide utility service to remaining undeveloped but potentially developable acreage within the District. See “THE BONDS – Issuance of Additional Debt.” The Developer is under no obligation to complete any development, if begun, and may modify or discontinue development plans in its sole discretion. Accordingly, the District makes no representation that any future development will occur.

ANNEXATION OF THE DISTRICT . . . The District lies within the extraterritorial jurisdiction of Pflugerville. See “THE BONDS – Annexation” for a discussion of the ability of Pflugerville to annex the District.

COMPREHENSIVE DEVELOPMENT AGREEMENT . . . Pursuant to the Comprehensive Development Agreement between Pflugerville and KM Kelly Lane, Ltd., the predecessor in interest to the Developer, as amended, Pflugerville consented to the creation of the District along with Kelly Lane Water Control and Improvement District No. 1 (“Kelly Lane No. 1”). The Comprehensive Development Agreement governs the development, operation and annexation of and issuance of bonds by the District. Development within the District is subject to the subdivision code and other ordinances and regulations of Pflugerville that are applicable by virtue of the District being located within Pflugerville’s extraterritorial jurisdiction. Pursuant to the Comprehensive

Development Agreement, the District is prohibited from providing water or wastewater service to any land within Pflugerville's extraterritorial jurisdiction unless Pflugerville has approved a subdivision plat covering such tract of land. The Comprehensive Development Agreement is effective from the date of execution (August 30, 2004) for a period of 15 years and is automatically extended for another 15-year term at the end of the then-current term; provided the Comprehensive Development Agreement cannot be automatically extended more than two terms.

The Comprehensive Development Agreement authorizes the District to issue bonds and notes, including bond anticipation notes or refunding bonds for any purpose not specifically prohibited by law, the Comprehensive Development Agreement or rules and policies of the TCEQ. The total amount of bonds issued by the District and Kelly Lane No. 1 and the total reimbursement to the Developer cannot exceed \$43,000,000 reasonably adjusted for inflation. The term of any District bonds cannot exceed 25 years unless Pflugerville specifically approves a longer term for a particular bond issue.

The Comprehensive Development Agreement provides that Pflugerville will provide wholesale wastewater service to the land within the District and Kelly Lane No. 1 in accordance with the terms of the NPWIS Construction and Participation Agreement dated August 30, 2004, by and between KM Kelly Lane, Ltd. (predecessor to the Developer), Pflugerville, and Rowe Lane Development, Ltd., as amended (the "NPWIS Agreement"). Pursuant to the NPWIS Agreement, Pflugerville has agreed to provide at least 1,700 LUEs, but not more than 2,200 LUEs, of wastewater service to the land within the District and Kelly Lane No. 1. Under an Assignment of Wastewater Capacity and Rights, dated April 25, 2008, by and between the Developer, Kelly Lane No. 1, and the District, (i) the Developer assigned all of its rights under the Comprehensive Development Agreement and the NPWIS Agreement to receive wastewater service from Pflugerville for the land within the District and Kelly Lane No. 1; and (ii) the parties agreed that Kelly Lane No. 1 will be allocated at least 950 LUEs, but not more than 1,230 LUEs, of wastewater service and the District will be allocated not less than 750 LUEs, but not more than 970 LUEs, of wastewater service under the Comprehensive Development Agreement and the NPWIS Agreement.

THE DEVELOPER

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

DESCRIPTION OF DEVELOPER . . . The developer currently active within the District is KM Avalon, Ltd. ("KM" or the "Developer"), a Texas limited partnership whose general partner is KM Avalon GP, Inc., a Texas corporation, of which Blake Magee is the President and Bill Kochwelp is the Vice President.

ACQUISITION AND DEVELOPMENT FINANCING . . . According to KM, in June 2005, it purchased five tracts of land totaling approximately 540 acres, including the approximate 212 acres currently within the District, along with approximately 328 acres of land within Kelly Lane No. 1, located adjacent to the District. This acquisition was financed from the combined proceeds of a cash down payment and a \$5,100,000 note due and payable to the original landowners (the "Acquisition Note"). The Acquisition Note has been paid off and is no longer outstanding.

KM has also stated that, in December 2005, it obtained a \$9,000,000 revolving line of credit from Franklin Bank ("Franklin") for the purpose of developing the District (the "Development Loan"). According to KM, the Development Loan was originally a three-year revolving line of credit with two one-year options to extend and interest due quarterly. In February 2008, Franklin increased the revolving amount of the Development Loan to \$11,000,000. On November 7, 2008, Franklin was taken over by the Federal Deposit Insurance Corporation (the "FDIC"). The Developer entered into an agreement with the FDIC to compromise and settle the notes on November 13, 2009 and closed on November 19, 2009, which resulted in a discounted loan amount. Subsequently, KM obtained a development loan with ABC Bank for a \$6,000,000 revolving line of credit for two years to refinance the existing Development Loan at the discounted amount and to finance future residential sections of Avalon within the District. In April of 2014, this ABC Bank line of credit was reduced from \$6,000,000 to \$2,000,000. The current balance on the revolving line is \$2,000,000. The maturity date was also extended to June, 2017. KM confirms it is in compliance with all terms of this line of credit.

DESCRIPTION OF OTHER LANDOWNERS . . . KM Weiss Lane, L.P. ("KM Weiss"), a Texas limited partnership and an affiliated entity of the Developer, purchased approximately 106 acres within the District in June of 2011. KM Weiss sold approximately 40 acres to Pulte Homes in October of 2013 and Pulte Homes contracted with KM Kelly Lane, GP, Inc., another entity affiliated with

the Developer, to develop such acreage as Phases 15A and 15B, and intends for Pulte’s remaining acreage to be developed as Phase 16. KM Weiss sold approximately 25 acres to a land banking entity, JEN Texas 17, LLC, for which Gehan Homes intends to build on in the future. KM Weiss intends for the remaining acreage it owns to be developed as future phases. See “THE DISTRICT – Current Status of Development” and “– Future Development.”

HOMEBUILDERS WITHIN THE DISTRICT . . . According to the Developer, there are currently four homebuilders active within the District: Pulte Homes, Castle Rock Communities, Gehan Homes and Chesmar Homes, building homes in three lot sizes (50’, 55’ and 60’). The homes range in price from \$175,000 to \$350,000, with square footage ranging from 1,600 to 4,000.

UTILITY DEVELOPMENT AGREEMENT . . . The District has one utility construction agreement with each of the Developer and KM Weiss Lane, L.P. Such agreements govern the development of water, wastewater and drainage facilities on land within the District and the reimbursement for certain of the costs of such development through the issuance of bonds by the District. Under the agreements, the District consented to the assignment by Developer and KM Weiss Lane, L.P. of certain reimbursement rights to Rowe Lane Development, Ltd.

It is anticipated that proceeds of the Bonds will be used to reimburse the Developer and/or KM Weiss Lane, L.P. for capital recovery fees and water, wastewater, and drainage facilities constructed to serve property within the District.

AGRICULTURAL WAIVER . . . Much of the undeveloped acreage within the District is subject to an agricultural exemption, however, the Developer and KM Weiss Lane, L.P. have executed agreements, which are recorded in the real property records of Travis County, and are covenants running with the land, waiving the right to have the land located within the District classified as agricultural, open-space or timberland for purposes of District taxes. In addition, the Developer and KM Weiss Lane, L.P. have waived the right to have the lots and houses (if any) in the District classified as business inventory for purposes of District taxes. The agreements may not be modified without the approval of the TCEQ and are binding on purchasers of such land from the Developer and KM Weiss Lane, L.P. See “TAXING PROCEDURES – Property Subject to Taxation by the District.”

THE SYSTEM

REGULATION . . . The water, wastewater and storm drainage facilities (the “System”), the purchase, acquisition and construction of which will be permanently financed by the District with the proceeds of the Bonds, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ, Travis County and Pflugerville. According to Jones-Heroy & Associates, Inc. (the “Engineer”), the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the District’s waterworks and wastewater facilities is subject to regulation by, among others, the U.S. Environmental Protection Agency and the TCEQ.

WATER SUPPLY AND DISTRIBUTION . . . The District receives its potable water from the Manville Water Supply Corporation (“MWSC”) pursuant to a 50-year wholesale water supply contract dated April 8, 2005 between KM Kelly Lane, Ltd., predecessor in interest to the Developer, and MWSC, entitled “Wholesale Water Supply Contract” (as amended, “MWSC Contract”). The MWSC Contract provides for water in an amount sufficient to serve up to 1,650 living-unit-equivalents (“LUE’s”) to service the District and Kelly Lane No. 1. Under an Allocation of Water Capacity and Rights, dated April 25, 2008, the Developer, the District and Kelly Lane No. 1 agreed that 322,700 gallons per day or 922 LUE’s of wholesale water supply under the MWSC Contract would be allocated to Kelly Lane No. 1 and 254,800 gallons per day or 728 LUE’s of wholesale water supply under the MWSC Contract would be allocated to the District.

WASTEWATER COLLECTION AND TREATMENT . . . The District is located within Pflugerville’s extraterritorial jurisdiction. KM Kelly Lane, Ltd., predecessor to the Developer, and Pflugerville entered into “The Comprehensive Development Agreement Between KM Kelly Lane, Ltd. and Pflugerville, Texas, including Consent to the Inclusion of Land within Water Districts and the Development of a 540 acre tract in Travis County, Texas,” dated August 30, 2004, as amended, and the “North Pflugerville Wastewater Interceptor System (“NPWIS”) Construction and Participation Agreement” dated August 30, 2004, as amended, under which Pflugerville agreed to provide wastewater treatment service to support ultimate build-out of the District. Under the NPWIS Construction and Participation Agreement, the parties made certain agreements regarding the construction of the NPWIS to convey the District’s wastewater flows to Pflugerville’s South Service Area Lift Station (from there, wastewater is pumped to Pflugerville’s Central Wastewater Plant.) The construction of the NPWIS was completed in June 2005.

100-YEAR FLOOD PLAIN AND STORM DRAINAGE INFORMATION . . . According to the Engineer, 97 acres within the District are currently located in the floodplain as shown in the Federal Emergency Management Agency Flood Insurance Rate Map dated June 16, 1993 for Travis County, as amended on April 24, 2014.

WATER, WASTEWATER AND DRAINAGE OPERATIONS:

TABLE 1 – RATE AND FEE SCHEDULE

The Board of Directors establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the monthly rates and fees for the District’s water and sewer service which have been in effect since February 1, 2016.

Monthly Base Charge – Water

<u>Meter Size</u>	<u>Fee</u>
5/8” and 3/4” meter	\$ 13.68
1” meter	\$ 22.84
1½” meter	\$ 45.11
2” meter	\$ 72.85

Monthly Base Charge – Wastewater

Per Fee Unit Equivalent	\$ 40.00
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Water Usage Charge

<u>Gallons</u>	
0-7,000 Gallons	\$ 4.25 (per 1,000 gallons)
7,001-15,000 Gallons	\$ 4.45 (per 1,000 gallons)
15,001 and Above	\$ 5.15 (per 1,000 gallons)

Monthly Water Rate for Fire Hydrant and Irrigation Meters

\$ 5.50 (per 1,000 gallons)

The District also charges the following capacity charges, security deposit, administrative charge, system usage and drainage fees:

Water

<u>Meter Size</u>	<u>Capacity Charges</u>
Residential/Commercial - 5/8” and 3/4” meter	\$ 2,800.00
Residential/Commercial – 1” meter	\$ 5,200.00
Commercial - 1½” meter	Requires Engineer Study
Commercial - 2” meter	Requires Engineer Study

Wastewater

<u>Meter Type</u>	<u>Capacity Charges</u>
All Meters	\$ 2,725.00 (per fee unit equivalent)

Security Deposit

<u>Meter Type</u>	<u>Fee</u>
All Meters	\$ 125.00

Administrative Charge/System Usage and Drainage Fee

<u>Meter Type</u>	<u>Fee</u>
All Meters	\$ 500.00

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TABLE 2 – OPERATING REVENUES AND EXPENSES STATEMENT

The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District’s financial statements and records. Reference is made to such statements for further and more complete information. Also see “APPENDIX A – Excerpts from the Annual Financial Report.”

	FYE September 30, 2015
<u>Revenues:</u>	
Property Taxes and Penalties	\$ 90,834
Drainage Fees	49,000
Service Revenue	16,724
Miscellaneous Revenue	501
Developer Funding	-
Total Revenues	<u>\$ 157,059</u>
<u>Expenditures:</u>	
Landscape and Maintenance	\$ 6,672
Security Lights	5,269
Director Fees & Payroll Taxes	6,136
Tax Appraisal/Collection Fees	440
Insurance	1,654
Legal Fees	30,886
Accounting	11,450
Engineering Fees	10,013
Other	48
Total Expenditures	<u>\$ 72,568</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 84,491
Beginning Fund Balance	\$ 20,361
Adjustments	-
Ending Fund Balance	<u><u>\$ 104,852</u></u>

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TABLE 3 – PROJECTED DEBT SERVICE SCHEDULE

Fiscal Year Ended 9/30	Outstanding Debt			The Bonds ^(a)			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
	2016	\$ -	\$ 116,114	\$ 116,114	\$ -	\$ -	
2017	-	121,515	121,515	-	109,500	109,500	231,015
2018	75,000	121,515	196,515	-	135,000	135,000	331,515
2019	80,000	119,265	199,265	65,000	135,000	200,000	399,265
2020	85,000	116,865	201,865	70,000	131,750	201,750	403,615
2021	90,000	114,315	204,315	70,000	128,250	198,250	402,565
2022	90,000	111,615	201,615	75,000	124,750	199,750	401,365
2023	95,000	108,915	203,915	80,000	121,000	201,000	404,915
2024	105,000	106,065	211,065	85,000	117,000	202,000	413,065
2025	110,000	102,810	212,810	90,000	112,750	202,750	415,560
2026	115,000	99,290	214,290	90,000	108,250	198,250	412,540
2027	120,000	95,495	215,495	95,000	103,750	198,750	414,245
2028	130,000	91,415	221,415	100,000	99,000	199,000	420,415
2029	135,000	86,865	221,865	105,000	94,000	199,000	420,865
2030	140,000	82,005	222,005	110,000	88,750	198,750	420,755
2031	150,000	76,825	226,825	115,000	83,250	198,250	425,075
2032	160,000	71,200	231,200	125,000	77,500	202,500	433,700
2033	165,000	64,800	229,800	130,000	71,250	201,250	431,050
2034	175,000	58,200	233,200	135,000	64,750	199,750	432,950
2035	185,000	51,200	236,200	145,000	58,000	203,000	439,200
2036	195,000	43,800	238,800	150,000	50,750	200,750	439,550
2037	205,000	36,000	241,000	155,000	43,250	198,250	439,250
2038	220,000	27,800	247,800	165,000	35,500	200,500	448,300
2039	230,000	19,000	249,000	175,000	27,250	202,250	451,250
2040	245,000	9,800	254,800	180,000	18,500	198,500	453,300
2041	-	-	-	190,000	9,500	199,500	199,500
	<u>\$ 3,300,000</u>	<u>\$ 2,052,689</u>	<u>\$ 5,352,689</u>	<u>\$ 2,700,000</u>	<u>\$ 2,148,250</u>	<u>\$ 4,848,250</u>	<u>\$ 10,200,939</u>

(a) Interest calculated at a net interest rate of 5.00% for purposes of illustration only. Preliminary, subject to change.

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FINANCIAL STATEMENT
(Unaudited as June 19, 2016)

TABLE 4 – ASSESSED VALUE

2014 Certified Assessed Valuation	\$ 7,338,961 (a)
2015 Certified Taxable Assessed Valuation	\$ 23,769,769 (a)
2016 Certified Taxable Assessed Valuation	\$ 51,302,294 (a)
Estimated Taxable Assessed Valuation (as of August 5, 2016)	\$ 60,224,352 (b)
Gross Direct Debt Outstanding	\$ 6,000,000 (c)
Estimated Overlapping Debt	5,176,960 (d)
Gross Direct Debt and Estimated Overlapping Debt	\$ 11,176,960
Ratio of Gross Direct Debt Outstanding to 2016 Certified Assessed Valuation	11.70%
Ratio of Gross Direct Debt Outstanding to Estimated August 5, 2016 Taxable Assessed Valuation ..	9.96%

Estimated Population as of July 30, 2016: 336^(e)

- (a) Assessed valuation of the District as certified by the Travis Central Appraisal District (“TCAD”). See “TAXING PROCEDURES.”
- (b) The Estimated Assessed Valuation as of August 5, 2016, as provided by TCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by TCAD. See “TAXING PROCEDURES.”
- (c) Includes the Bonds. See “DEBT SERVICE REQUIREMENTS.”
- (d) See “DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt.”
- (e) Based upon 3.5 residents per completed and occupied single family home.

TABLE 5 – UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
Water, Sewer, Drainage	11/7/2006	\$ 22,210,000	\$ 3,300,000	\$ 2,700,000	\$ 16,210,000
Park and Recreation	11/7/2006	3,295,000	-	-	3,295,000
Total		<u>\$ 25,505,000</u>	<u>\$ 3,300,000</u>	<u>\$ 2,700,000</u>	<u>\$ 19,505,000</u>

TABLE 6 – CASH AND INVESTMENT BALANCES^{(a)(b)}

Operating Fund	\$ 197,492
Interest & Sinking Fund.....	\$ 327,707
Capital Projects Fund.....	\$ 368,566

- (a) Unaudited as of August 1, 2016.
- (b) Does not include approximately twenty-four months of capitalized interest (\$270,000) which is projected to be deposited into the Debt Service Fund from proceeds of the Bonds at closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated

maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

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

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

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

TABLE 7 – CURRENT INVESTMENTS

As of August 1, 2016, the District is currently invested in a bank Money Market Fund (up to insured FDIC limits) and TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District’s audited financial statements.

Investments	Market Value	% of Total
Money Market, TexPool	\$ 893,765	100.00%
	<u>\$ 893,765</u>	<u>100.00%</u>

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 7-31-16
Travis County	\$ 717,256,497	0.01%	\$ 71,726
Travis County ESD No. 2	170,000	0.24%	408
Travis County Healthcare District	11,355,000	0.01%	1,136
Pflugerville ISD	498,050,000	0.26%	1,294,930
Kelly Lane WCID #1	16,410,000	23.21%	3,808,761
Kelly Lane WCID #2	6,000,000	100.00%	<u>6,000,000</u> ^(a)
Total Direct and Overlapping Tax Supported Debt			\$ 11,176,960
Ratio of Direct and Overlapping Tax Supported Debt to 2016 Certified TAV			21.79%
Ratio of Direct and Overlapping Tax Supported Debt to Estimated 8-5-16 TAV			18.56%

(a) Includes the Bonds.

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TAX DATA

TABLE 8 – TAX COLLECTIONS

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

Year Ended 9/30	Tax Rate	General Fund	Debt Service Fund	Tax Levy	% Total Collections (1)
2015	\$ 0.9500	\$ 0.9500	\$ -	\$ 80,202	100.00%
2016	0.9500	0.6000	0.3500	\$ 225,813	99.77%

(1) Fiscal 2016 collections as of July 1, 2016.

TABLE 9 – DISTRICT TAX RATES

	Tax Rates per \$100 Assessed Valuation		
	2015	2014	2013
Debt Service	\$ 0.3500	\$ -	\$ -
Maintenance	0.6000	0.9500	0.9500
Total	\$ 0.9500	\$ 0.9500	\$ 0.9500

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

MAINTENANCE TAX . . . The District has the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District’s facilities and for paying administrative expenses of the District, if such maintenance tax is authorized by the District’s voters. An election for such a tax was held on November 7, 2006 at which time a maintenance tax not to exceed \$1.00 per \$100 assessed valuation was approved by the District’s voters. The District levied a 2016 maintenance tax of \$0.6000 in September 2015.

TABLE 10 – PRINCIPAL TAXPAYERS

The following list of principal taxpayers was provided by the Travis Central Appraisal District based on the 2016 tax rolls of the District, which reflect ownership as of January 1 of each year shown.

Taxpayer	Taxable Assessed Value	% of 2016 Taxable Assessed Valuation
KM Avalon Ltd.	\$ 2,422,672	4.72%
Pulte Homes of Texas LP	1,312,705	2.56%
Castlerock Communities LP	1,007,422	1.96%
Gehan Homes Ltd.	910,496	1.77%
KM Weiss Lane LP	804,267	1.57%
Vedula, Kenkatarao & Madhuri - Homeowner	323,066	0.63%
Davis, Candace & David - Homeowner	280,228	0.55%
Keel, Megan E. - Homeowner	277,133	0.54%
Altaf, Rehan - Homeowner	274,875	0.54%
Turner, John Michael - Homeowner	272,191	0.53%
	<u>\$ 7,885,055</u>	<u>15.37%</u>

TAXING PROCEDURES

AUTHORITY TO LEVY TAXES . . . The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, their pro rata share of debt service on any contract tax bonds and any additional bonds or obligations payable from taxes which the District may hereafter issue (see “RISK FACTORS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of and Security for Payment.” Under Texas law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See “TAX DATA – District Bond Tax Rate Limitation,” and “TAX DATA – Maintenance Tax.”

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 the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. TCAD has the responsibility for appraising property for all taxing units within Travis County, including the District. Such appraisal values are subject to review and change by the Travis Central Appraisal Review Board (the “Appraisal Review Board”). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

PROPERTY SUBJECT TO TAXATION BY THE DISTRICT . . . *General:* Except for certain exemptions provided by State 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; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: 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; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District’s voters may approve. The District’s tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

Residential Homestead . . . The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Tax Abatement . . . Travis County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of 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 a comprehensive plan. To date, the District has not executed any abatement agreements.

Goods-in-Transit . . . Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit” is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provisions permit local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer

may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. In February, 2008, the Board conducted a public hearing on the question of whether to provide for taxation of goods-in-transit and adopted a Resolution Providing for Taxation of Goods-in-Transit, by which the District took official action to tax goods-in-transit.

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

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

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

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

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

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

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 homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem residential homestead property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records other property may be redeemed by a taxpayer within 180 days of such filing) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "RISK FACTORS – Tax Collections and Foreclosure Remedies."

EFFECT OF FIRREA ON TAX COLLECTIONS . . . The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the FDIC when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

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

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

LEGAL MATTERS

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

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

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

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

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

TAX MATTERS

OPINION . . . On the date of Initial Delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Issuer, 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 to the Issuer will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX B – Form of Bond Counsel’s Opinion.”

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District’s federal tax certificate, 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. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the project financed with the Bond proceeds. 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, all of 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.

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to certain information to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 10 and in “APPENDIX A – Excerpts from the Annual Financial Report,” if audited financial statements are then available. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if it is completed by the required time. If audited financial statements are not available within twelve months after any such fiscal year end, the District will file unaudited financial statements twelve months after any such fiscal year end, and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in “APPENDIX A – Excerpts from the Annual Financial Report” or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

NOTICE OF CERTAIN EVENTS . . . The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws; (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

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

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

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete

presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered Owners may seek a writ of mandamus to compel the District to comply with its agreement.

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

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Specialized Public Finance Inc. (the “Financial Advisor”), which firm was employed in 2014 as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

OFFICIAL STATEMENT

PREPARATION . . . The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See “The District.” The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from sources including: Jones-Heroy & Associates, Inc.; KM Avalon, Ltd.; Bott Douthitt, P.L.L.C.; and Armbrust & Brown, PLLC.

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

The Engineer: The information contained in the Official Statement relating to engineering matters and to the description of the System and, in particular, that information included in the sections entitled “THE DISTRICT” and “THE SYSTEM,” has been provided by Jones-Heroy & Associates, Inc. (the “Engineer”), and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the certified assessed valuation of property in the District and, in particular, such information contained in the section captioned “FINANCIAL STATEMENT,” has been provided by the TCAD, in reliance upon their authority as experts in the field of appraising and tax assessing.

UPDATING THE OFFICIAL STATEMENT DURING UNDERWRITING PERIOD . . . If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide 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 Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described in the Notice of Sale under the heading “DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS – Delivery.” The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the “end of the underwriting period” within the meaning of the Rule), unless the Initial Purchaser provides written notice the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

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

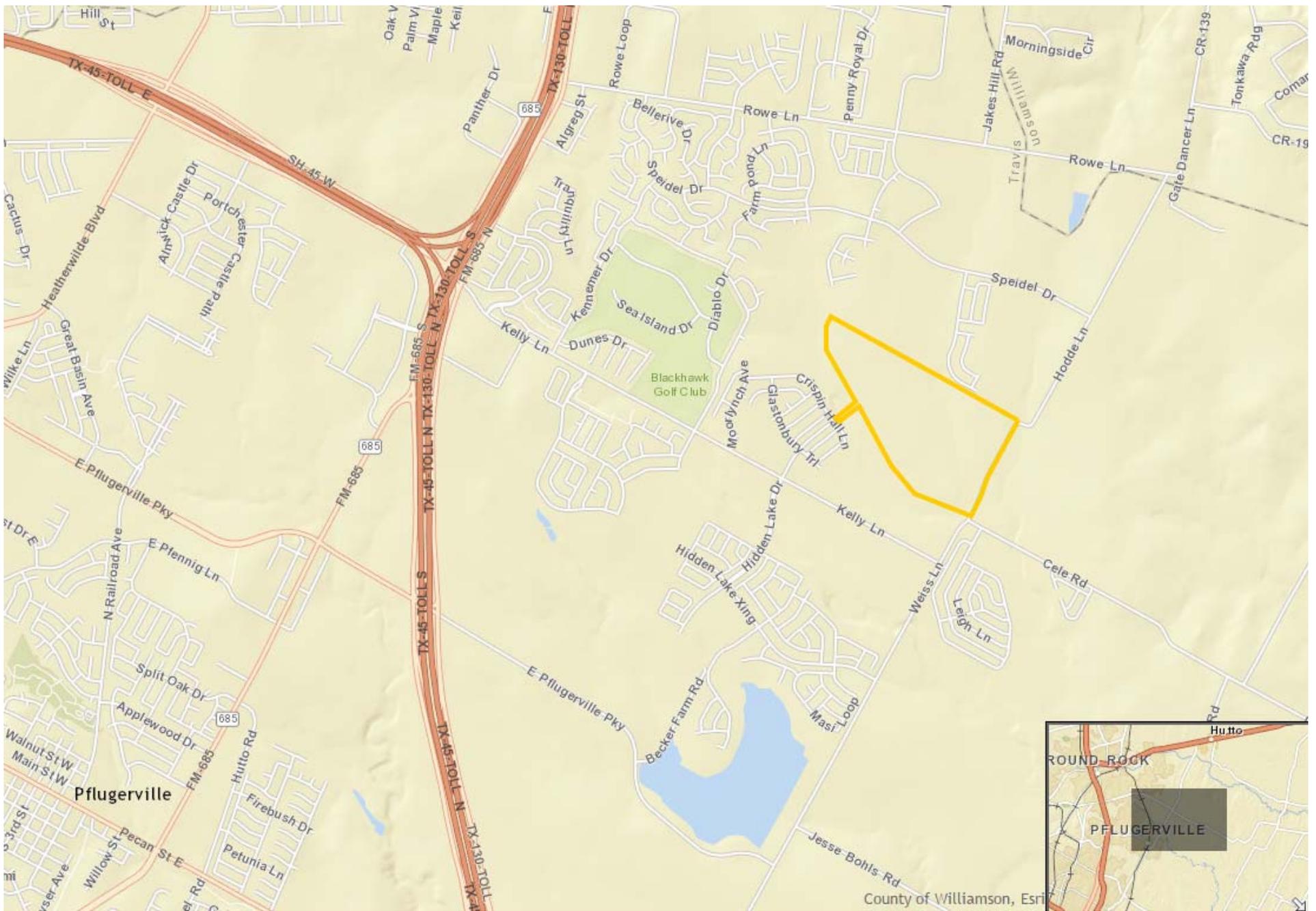
ANNUAL AUDITS . . . Under Texas Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of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

This Official Statement was approved by the Board of Directors of Kelly Lane Water Control and Improvement District No. 2, as of the date shown on the first page hereof.

Secretary, Board of Directors
Kelly Lane Water Control and Improvement District No. 2

President, Board of Directors
Kelly Lane Water Control and Improvement District No. 2

LOCATION MAP



LOCATION MAP – KELLY LANE WCID NO. 2

PHOTOGRAPHS

The homes shown in the attached photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction.

The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."









APPENDIX A

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

The information contained in this APPENDIX has been excerpted from the audited financial statements of Kelly Lane Water Control and Improvement District No. 2 for the fiscal year ended September 30, 2015. Certain information not considered to be relevant to this financing has been omitted; however, complete audited reports are available upon request.

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

111 Congress Avenue
Suite 400
Austin, Texas 78701
(512) 610-2209
www.mgsbpllc.com

Board of Directors
Kelly Lane Water Control
and Improvement District No. 2
Travis County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Kelly Lane Water Control and Improvement District No. 2 (the "District"), as of and for the year ended September 30, 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.

Board of Directors
Kelly Lane Water Control
and Improvement District No. 2

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 September 30, 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 Budgetary Comparison Schedule – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

February 1, 2016

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**KELLY LANE WATER CONTROL AND IMPROVEMENT
DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Kelly Lane Water Control and Improvement District No. 2 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2015. Since this information is designed to focus on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the unassigned fund balance was \$104,852, an increase of \$84,491 from the previous fiscal year. General fund revenues increased from \$74,612 in the previous fiscal year to \$157,059 in the current fiscal year primarily due to an increase in the District's taxable appraised property values.
- *Debt Service Fund:* Fund balance restricted for debt service increased from \$-0- in the previous fiscal year to \$261,868 in the current fiscal year. The District received \$261,859 of proceeds from the issuance of Series 2015 Unlimited Tax Bonds.
- *Capital Projects Fund:* Fund balance restricted for capital projects increased from \$-0- in the previous fiscal year to \$369,181 in the current fiscal year. The District issued \$3,300,000 of Series 2015 Unlimited Tax Bonds and used the proceeds to purchase \$2,154,530 of infrastructure assets and pay \$374,477 of bond issuance expenditures.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had expenses net of revenues of \$403,204. Net position decreased from a deficit balance of \$99,283 to a deficit balance of \$502,487.

OVERVIEW OF THE DISTRICT

The District, a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (TCEQ) on May 26, 2005. The District was created to provide water, wastewater, and storm drainage facilities to the land within its boundaries and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended. The District is located entirely within the extraterritorial jurisdiction of the City of Pflugerville and wholly within the boundaries of Travis County, Texas. The District is situated approximately 5 miles northeast of the central business district of the City of Pflugerville.

**KELLY LANE WATER CONTROL AND IMPROVEMENT
DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

USING THIS ANNUAL REPORT

This annual report consists of five parts:

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

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

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, 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.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

**KELLY LANE WATER CONTROL AND IMPROVEMENT
DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (continued) -

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Increase (Decrease)
	2015	2014*	
Current and other assets	\$ 745,359	\$ 29,785	\$ 715,574
Capital and non-current assets	2,151,222	-	2,151,222
Total Assets	2,896,581	29,785	2,866,796
Current Liabilities	102,923	129,068	(26,145)
Long-term Liabilities	3,296,145	-	3,296,145
Total Liabilities	3,399,068	129,068	3,270,000
Net Investment in Capital Assets	(860,386)	-	(860,386)
Restricted	253,047	-	253,047
Unrestricted	104,852	(99,283)	204,135
Total Net Position	\$ (502,487)	\$ (99,283)	\$ (403,204)

*Unaudited

The District's combined net position decreased from a deficit balance of \$99,283 in the previous fiscal year to a deficit balance of \$502,487 in the current fiscal year. Some of the District's assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$104,852.

**KELLY LANE WATER CONTROL AND IMPROVEMENT
DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued) -

Revenues and Expenses:

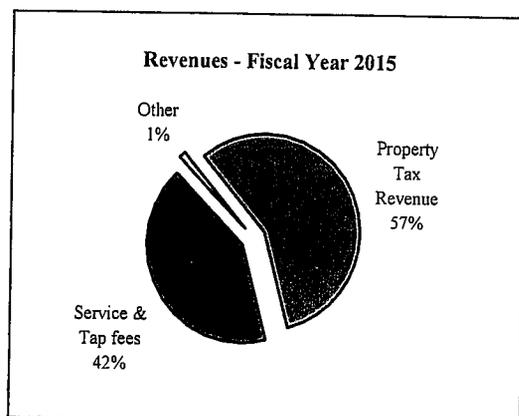
Summary Statement of Activities

	Governmental Activities		Increase (Decrease)
	2015	2014*	
Service revenues, including penalties	\$ 16,724	\$ 3,359	\$ 13,365
Property taxes, including penalties	90,834	23,152	67,682
Tap connections	49,000	40,000	9,000
Other	525	1,001	(476)
Total Revenues	157,083	67,512	89,571
Legal fees	30,886	21,441	9,445
Accounting/Audit fees	11,450	11,100	350
Engineering fees	10,013	9,896	117
Landscaping/Utilities	11,941	6,501	5,440
Other	8,278	6,585	1,693
Debt Service	484,411	-	484,411
Depreciation	3,308	-	3,308
Total Expenses	560,287	55,523	504,764
Change in Net Position	(403,204)	11,989	(415,193)
Beginning Net Position	(99,283)	(111,272)	11,989
Ending Net Position	\$ (502,487)	\$ (99,283)	\$ (403,204)

* Unaudited

Revenues were \$157,083 for the fiscal year ended September 30, 2015 while expenses were \$560,287. Net position decreased \$403,204.

Property tax revenue in the current fiscal year is \$90,834. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2014 tax year (September 30, 2015 fiscal year) were based upon a current adjusted assessed value of \$7,425,859 and a tax rate of \$0.95 per \$100 of assessed valuation. Property taxes levied for the 2013 tax year (September 30, 2014 fiscal year) were based upon an adjusted assessed value of \$2,415,700 and a tax rate of \$0.95 per \$100 of assessed valuation.



**KELLY LANE WATER CONTROL AND IMPROVEMENT
DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued) –

The tax rate levied is determined after the District reviews the General Fund budget requirements and the Debt Service Fund debt service obligations of the District. The District's primary revenue sources are property taxes, service revenues and tap connection fees.

ANALYSIS OF GOVERNMENTAL FUNDS

Governmental Funds by Year

	2015	2014*	2013*
Cash and cash equivalents	\$ 736,765	\$ 28,270	\$ 8,860
Receivables and Prepaid expenses	8,681	1,516	545
Total Assets	745,446	29,786	9,405
Accounts payable	9,458	9,425	8,133
Other payables	87	-	-
Total Liabilities	9,545	9,425	8,133
Deferred Inflows of Resources	-	-	-
Restricted	631,049	-	-
Unassigned	104,852	20,361	1,272
Total Fund Balance	735,901	20,361	1,272
Total Liabilities and Fund Balances	\$ 745,446	\$ 29,786	\$ 9,405

* Unaudited

For the fiscal year ended September 30, 2015, the District's governmental funds reflect a combined fund balance of \$735,901.

This fund balance includes a \$84,491 increase in the General Fund.

The Debt Service Fund reflects an increase of \$261,868 in fiscal year 2015. More detailed information about the District's debt is presented in the *Notes to the Financial Statements*.

The Capital Project Fund purchases the District's infrastructure. The Capital Projects Fund had a \$369,181 increase in fund balance for fiscal year 2015. The District issued \$3,300,000 of Series 2015 Unlimited Tax Bonds and used the proceeds to purchase \$2,154,530 of infrastructure assets and pay \$374,477 of bond issuance expenditures.

**KELLY LANE WATER CONTROL AND IMPROVEMENT
DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

BUDGETARY HIGHLIGHTS

The *General Fund* pays for daily operating costs. On September 4, 2014, the Board of Directors approved a budget including revenues of \$100,788 as compared to expenditures of \$66,602. When comparing actual to budget, the District had a positive variance of \$50,305. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

CAPITAL ASSETS

The District's governmental activities had invested \$2,151,222 in land and infrastructure. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	9/30/2015	9/30/2014*
Capital Assets:		
Land	\$ 169,686	\$ -
Water/Wastewater/Drainage	1,984,844	-
Less: Accumulated Depreciation	(3,308)	-
Total Net Capital Assets	\$ 2,151,222	\$ -

*Unaudited

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

LONG-TERM DEBT

The District has the following balances outstanding on unlimited tax bonds:

	Bonds Payable
Series 2015	\$ 3,300,000
Total	\$ 3,300,000

The District owes \$3.3 million to bondholders. The ratio of the District's long term debt to the total 2014 taxable assessed valuation (\$7,425,859) is 44.4%. The District's estimated population, as provided by the District as of July 30, 2015, is 336. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

**KELLY LANE WATER CONTROL AND IMPROVEMENT
DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The amount of assessed value of property within the District for the 2015 tax year (September 30, 2016 fiscal year) is approximately \$24 million and the tax rate levied was \$0.95 per \$100 of assessed valuation. Approximately 63% of the tax revenues derived from this levy of taxes will be to fund General Fund costs and approximately 37% of the property tax revenues will be used to make debt service payments on the District's bond debt.

The adopted budget for fiscal year 2016 projects a General Fund balance increase of \$109,273.

REQUESTS FOR INFORMATION

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

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FINANCIAL STATEMENTS

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Net Position
ASSETS						
Cash and cash equivalents						
Cash on deposit	\$ 62,036	\$ -	\$ -	\$ 62,036	\$ -	\$ 62,036
Cash equivalent investments	43,593	261,868	369,268	674,729	-	674,729
Receivables-						
Service, net of allowance of doubtful accounts of \$0	8,594	-	-	8,594	-	8,594
Interfund	87	-	-	87	(87)	-
Capital assets, net of accumulated depreciation -						
Land	-	-	-	-	169,686	169,686
Water/Wastewater/Drainage System	-	-	-	-	1,981,536	1,981,536
TOTAL ASSETS	<u>\$ 114,310</u>	<u>\$ 261,868</u>	<u>\$ 369,268</u>	<u>\$ 745,446</u>	<u>2,151,135</u>	<u>2,896,581</u>
LIABILITIES						
Accounts payable	\$ 9,458	\$ -	\$ -	\$ 9,458	-	9,458
Accrued interest payable	-	-	-	-	8,821	8,821
Interfund	-	-	87	87	(87)	-
Due to developer	-	-	-	-	84,644	84,644
Bonds payable -						
Due within one year	-	-	-	-	-	-
Due after one year	-	-	-	-	3,296,145	3,296,145
TOTAL LIABILITIES	<u>9,458</u>	<u>-</u>	<u>87</u>	<u>9,545</u>	<u>3,389,523</u>	<u>3,399,068</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Restricted for Debt Service	-	261,868	-	261,868	(261,868)	-
Restricted for Authorized Construction	-	-	369,181	369,181	(369,181)	-
Unassigned	104,852	-	-	104,852	(104,852)	-
TOTAL FUND BALANCES	<u>104,852</u>	<u>261,868</u>	<u>369,181</u>	<u>735,901</u>	<u>(735,901)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 114,310</u>	<u>\$ 261,868</u>	<u>\$ 369,268</u>	<u>\$ 745,446</u>		
NET POSITION:						
Net investment in capital assets					(860,386)	(860,386)
Restricted for debt service					253,047	253,047
Unrestricted					104,852	104,852
TOTAL NET POSITION					<u>\$ (502,487)</u>	<u>\$ (502,487)</u>

The accompanying notes are an integral part of this statement.

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
REVENUES:						
Service revenues, including penalties	\$ 16,724	\$ -	\$ -	\$ 16,724	\$ -	\$ 16,724
Property taxes, including penalties	90,834	-	-	90,834	-	90,834
Tap connections	49,000	-	-	49,000	-	49,000
Interest and other	501	9	15	525	-	525
TOTAL REVENUES	<u>157,059</u>	<u>9</u>	<u>15</u>	<u>157,083</u>	<u>-</u>	<u>157,083</u>
EXPENDITURES / EXPENSES:						
Current:						
Landscape maintenance	6,672	-	-	6,672	-	6,672
Security lights	5,269	-	-	5,269	-	5,269
Director fees, including payroll taxes	6,136	-	-	6,136	-	6,136
Legal fees	30,886	-	-	30,886	-	30,886
Engineering fees	10,013	-	-	10,013	-	10,013
Bookkeeping fees	11,450	-	-	11,450	-	11,450
Tax appraisal/collection fees	440	-	-	440	-	440
Insurance	1,654	-	-	1,654	-	1,654
Other	48	-	-	48	-	48
Debt service:						
Interest	-	-	-	-	8,834	8,834
Reimburse prior year costs	-	-	136,100	136,100	-	136,100
Bond issuance costs	-	-	374,477	374,477	(35,000)	339,477
Capital outlay	-	-	2,154,530	2,154,530	(2,154,530)	-
Depreciation	-	-	-	-	3,308	3,308
TOTAL EXPENDITURES / EXPENSES	<u>72,568</u>	<u>-</u>	<u>2,665,107</u>	<u>2,737,675</u>	<u>(2,177,388)</u>	<u>560,287</u>
Excess / (Deficiency) of revenues over expenditures	<u>84,491</u>	<u>9</u>	<u>(2,665,092)</u>	<u>(2,580,592)</u>	<u>2,177,388</u>	<u>(403,204)</u>
OTHER FINANCING SOURCES / (USES):						
Bond proceeds	-	261,859	3,038,141	3,300,000	(3,300,000)	-
Bond discount	-	-	(3,868)	(3,868)	3,868	-
TOTAL OTHER FINANCING SOURCES / (USES)	<u>-</u>	<u>261,859</u>	<u>3,034,273</u>	<u>3,296,132</u>	<u>(3,296,132)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>84,491</u>	<u>261,868</u>	<u>369,181</u>	<u>715,540</u>	<u>(715,540)</u>	<u>-</u>
CHANGE IN NET POSITION						<u>(403,204)</u>
FUND BALANCES / NET POSITION:						
Beginning of the year	20,361	-	-	20,361	(119,644)	(99,283)
End of the year	<u>\$ 104,852</u>	<u>\$ 261,868</u>	<u>\$ 369,181</u>	<u>\$ 735,901</u>	<u>\$ (1,238,388)</u>	<u>\$ (502,487)</u>

The accompanying notes are an integral part of this statement.

**NOTES TO THE
FINANCIAL STATEMENTS**

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

1. SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity - The District was created, organized and established on May 26, 2005, by the Texas Commission on Environmental Quality (formerly known as the Texas Natural Resource Conservation Commission) pursuant to the provisions of Chapter 49 and 51 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by GASB standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined by GASB standards which are included in the District's reporting entity.

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

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

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

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Basis of Presentation - Government-wide and Fund Financial Statements (continued) -

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

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

• **Government-wide Statements:**

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

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

• **Fund Financial Statements:**

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

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

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

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Governmental Fund Types (continued) -

- **Debt Service Fund** – The Debt Service Fund is used to account for resources restricted, committed or assigned for the payment of, debt principal, interest and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources restricted, committed or assigned for the acquisition or construction of major capital facilities.

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

Basis of Accounting

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

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

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

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

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Basis of Accounting (continued) -

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

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

Budgets and Budgetary Accounting - A budget was adopted on September 4, 2014, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the current fiscal year.

Cash and Cash Equivalents – Includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of common trust funds, money market funds, and obligations in the State Treasurer's Investment Pool are recorded at cost, which approximates fair market value.

Investments - Investments consisting of certificates of deposits are recorded at cost which approximates fair market value.

Capital Assets - Capital assets, which include Administrative Facilities and Equipment, Common and Recreation Areas, Water Production/Distribution System, Wastewater Collection System, Water Quality Ponds and Organizational Costs are reported in the government-wide column in the Statement of Net Position. Public domain ("infrastructure") capital assets including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated fair market value at the time received. Interest incurred during construction of capital facilities is not capitalized.

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

<u>Asset</u>	<u>Years</u>
Administrative Facilities and Equipment	5 - 30
Common and Recreation Areas	5 - 30
Water Production/Distribution System	10 - 50
Wastewater Collection System	5 - 50
Water Quality Ponds	25
Organizational Costs	5

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Interfund Transactions - Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay that amount and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

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

Long-Term Debt - Unlimited tax bonds, which have been issued to fund capital projects, are to be repaid from tax revenues of the District.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

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

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

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

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

1. 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.

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS

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

Fund Balances - Total Governmental Funds		\$ 735,901
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds -		
Capital assets	2,154,530	
Less: Accumulated depreciation	<u>(3,308)</u>	2,151,222
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds -		
Due to developer	(84,644)	
Bonds payable	(3,300,000)	
Issuance discount, net of amortization	3,855	
Accrued interest	<u>(8,821)</u>	<u>(3,389,610)</u>
Net Position - Governmental Activities		<u><u>\$ (502,487)</u></u>

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

Net Change in Fund Balances - Governmental Funds		\$ 715,540
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report -		
Interest expenditures in year paid	(8,834)	
Repayment of developer advance	35,000	
Bond sales and related bond discount as other financing sources/(use)	(3,296,132)	
Capital outlay in year paid	<u>2,154,530</u>	(1,115,436)
Governmental funds do not report -		
Depreciation		<u>(3,308)</u>
Change in Net Position - Governmental Activities		<u><u>\$ (403,204)</u></u>

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

3. CASH AND INVESTMENTS

The investment policies of the District are governed by State statute and an adopted District Investment Policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; securities collateralizing time deposits are held by independent third party trustees.

Cash - At September 30, 2015, the carrying amount of the District's deposits was \$62,036 and the bank balance was \$73,649. The bank balance was covered by federal depository insurance.

Investments -

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

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and

Other mutual fund investments are required to have weighted average maturities of less than two years.

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

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

The District invests in Texpool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of the pool shares.

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

3. CASH AND INVESTMENTS (continued)-

At September 30, 2015, the District held the following investments:

Investment	Fair Market Value at 9/30/2015	Governmental Fund			Investment Rating	
		General	Debt Service	Capital Projects	Rating	Rating Agency
Texpool	\$ 674,729	\$ 43,593	\$ 261,868	\$ 369,268	AAAm	Standard & Poors
	\$ 674,729	\$ 43,593	\$ 261,868	\$ 369,268		

(1) Restricted for Payment of Debt Service and Cost of Assessing and Collecting Taxes.

(2) Restricted for Purchase of Capital Assets.

Concentration of credit risk. In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2015, the District did not own any investments in individual securities.

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with Obligations of the United States or its agencies and instrumentalities. As of September 30, 2015, the District's bank deposits were fully covered by FDIC insurance.

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Travis Central Appraisal District establishes appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Travis County Tax Collector bills and collects the District's property taxes. The Board of Directors set tax rates for the 2014 tax year on September 4, 2014.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2014 tax roll. The tax rate, based on total taxable assessed valuation of \$7,425,859 was \$0.95 on each \$100 valuation and was allocated to the General Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters at an election held on May 13, 2006.

Property taxes receivable were fully collected at September 30, 2015.

5. INTERFUND ACCOUNTS

A summary of interfund accounts, which resulted from the time lag between dates that payments are made between funds are made, is as follows at September 30, 2015:

	Interfund	
	Receivables	Payables
General Fund -		
Capital Projects Fund	\$ 87	\$ -
Capital Projects Fund -		
General Fund	-	87
	\$ 87	\$ 87

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance 10/1/2014	Additions	Deletions	Balance 9/30/2015
Capital assets not being depreciated:				
Land	\$ -	\$ 169,686	\$ -	\$ 169,686
Capital assets being depreciated:				
Water/Wastewater/Drainage Improvements	-	1,984,844	-	1,984,844
Total capital assets being depreciated	-	1,984,844	-	1,984,844
Less accumulated depreciation for :				
Water/Wastewater/Drainage Improvements	-	(3,308)	-	(3,308)
Total accumulated depreciation	-	(3,308)	-	(3,308)
Total capital assets being depreciated, net of accumulated depreciation	-	1,981,536	-	1,981,536
Total capital assets, net	\$ -	\$ 2,151,222	\$ -	\$ 2,151,222

7. BONDED DEBT

The following is a summary of bond transactions of the District for the year ended September 30, 2015:

	Unlimited Tax Bonds
Bonds payable at October 1, 2014	\$ -
Bonds issued	3,300,000
Bonds refunded	-
Bonds retired	-
Bond discount, net of accumulated amortization	(3,855)
Bonds payable at September 30, 2015	\$ 3,296,145

Bonds payable at September 30, 2015, were comprised of the following individual issues:

Unlimited Tax Bonds:

\$3,300,000 – 2015 Unlimited Tax Bonds payable serially through the year 2040 at interest rates which range from 3.00% to 4.00%. Bonds maturing on or after September 1, 2023, are callable prior to maturity beginning on September 1, 2022. Bonds maturing September 1, 2037 and 2040 are term bonds and are subject to mandatory sinking fund redemption.

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

7. BONDED DEBT (continued) -

The annual requirements to amortize all bonded debt at September 30, 2015, including interest, are as follows:

Year Ended September 30,	Annual Requirements for All Series		
	Principal	Interest	Total
2016	\$ -	\$ 116,114	\$ 116,114
2017	-	121,515	121,515
2018	75,000	121,515	196,515
2019	80,000	119,265	199,265
2020	85,000	116,865	201,865
2021-2025	490,000	543,720	1,033,720
2026-2030	640,000	455,070	1,095,070
2031-2035	835,000	322,225	1,157,225
2036-2040	1,095,000	136,400	1,231,400
	<u>\$ 3,300,000</u>	<u>\$ 2,052,689</u>	<u>\$ 5,352,689</u>

Bonds authorized but not issued as of September 30, 2015, are as follows:

Type	Amount
Unlimited Tax Bonds	\$ 18,910,000
Park & Recreation Bonds	\$ 3,295,000
Refunding Bonds	\$ 35,000,000

\$261,868 is available in the Debt Service Fund to service the bonded debt.

The existing bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

8. COMMITMENTS AND CONTINGENCIES

The developer of the land within the District has incurred costs related to construction of facilities. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality. The District, as of September 30, 2015, has recorded no liability pertaining to such costs.

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

9. WHOLESALE WATER SUPPLY CONTRACT

On April 8, 2005, KM Kelly Lane, Ltd. entered into a Wholesale Water Supply Contract ("Water Contract") with Manville Water Supply Corporation ("Manville"). Upon final creation, the District and Kelly Lane Water Control and Improvement District No. 1 ("WCID No. 1") joined in the Water Contract. On January 20, 2006, KM Kelly Lane, Ltd. assigned its rights and obligations under the Water Contract to KM Avalon, Ltd. Under terms of the Water Contract, Manville had agreed to supply to the District and WCID No. 1 a maximum of 577,500 gallons per day, or 1,650 living unit equivalents ("LUEs") of water service. The Water Contract requires the District and WCID No. 1 to construct, install, operate and maintain the internal water facilities within their service areas. On April 25, 2008, KM Avalon, Ltd. allocated 728 LUEs of wholesale water supply provided by Manville under the Water Contract to the District and 922 LUEs to WCID No. 1. The term of the contract is 50 years. The water contract has been amended by Amendments dated September 23, 2008, and July 14, 2010, in order to revise the required takedown schedule under the water contract.

10. COMPREHENSIVE DEVELOPMENT AGREEMENT

On August 30, 2004, KM Kelly Lane, Ltd. entered into a Comprehensive Development Agreement ("Creation Agreement") with the City of Pflugerville ("the City") regarding creation of the District and WCID No. 1 and a North Pflugerville Wastewater Interceptor System Construction and Participation Agreement ("NPWIS Agreement") with the City and Rowe Lane Development, Ltd. The Consent Agreement provides that the City will provide wholesale wastewater service to land within the boundaries of the District and WCID No. 1 of at least 1,700 LUEs, but not more than 2,200 LUEs. The parties further agreed that the District would be allocated at least 750 LUEs but not more than 970 LUEs of wastewater service while WCID No. 1 would be allocated not less than 950 LUEs but not more than 1,230 LUEs of wastewater service. The NPWIS Agreement provides for the construction and operation of the North Pflugerville Wastewater Interceptor System ("NPWIS") to transport wastewater from, among other areas, the land within the District and WCID No. 1. Effective October 18, 2005, KM Kelly Lane, Ltd. assigned its rights, duties and obligations under the Consent Agreement and the NPWIS Agreement to KM Avalon, Ltd. Effective April 25, 2008, KM Avalon, Ltd. assigned all of its rights to wastewater capacity and service under the Creation Agreement and the NPWIS Agreement to the District and WCID No. 1, according to the allocations described above. The districts agreed to perform all of their obligations under the Creation Agreement with regard to the assigned wastewater service and capacity, including the collection and payment of all monthly charges and impact fees payable for wastewater service provided by the City, and to reimburse KM Avalon, Ltd. for its allocated capacity in the NPWIS.

KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

11. JOINT FACILITIES AGREEMENT

Effective as of February 19, 2008, the District entered into a Joint Facilities Agreement [Avalon Detention Pond No. 1] ("Joint Facilities Agreement") with WCID No. 1 and KM Avalon, Ltd. regarding construction, ownership and operation of Avalon Detention Pond No. 1 ("the pond"). The Joint Facilities Agreement was subsequently amended by Amendment No. 1 to Joint Facilities Agreement dated effective as of April 25, 2008. Under terms of the Joint Facilities Agreement as amended, the District and WCID No. 1 will reimburse capital costs and operations and maintenance costs for the pond based on the land in each district which drains to the pond as set forth below:

Avalon Detention Pond No. 1

The District	41%
WCID No. 1	59%

12. RISK MANAGEMENT

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

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

APPENDIX B

FORM OF BOND COUNSEL'S OPINION

LAW OFFICES

M^cCALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD
SUITE 900
DALLAS, TEXAS 75201-6587
TELEPHONE: 214 754-9200
FACSIMILE: 214 754-9250

600 CONGRESS AVENUE
SUITE 1800
AUSTIN, TEXAS 78701-3248
TELEPHONE: 512 478-3805
FACSIMILE: 512 472-0871

700 N. ST. MARY'S STREET
SUITE 1525
SAN ANTONIO, TEXAS 78205-3503
TELEPHONE: 210 225-2800
FACSIMILE: 210 225-2984

*[An opinion in substantially the following form will be delivered by McCall,
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the
Bonds, assuming no material changes in facts or law.]*

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
UNLIMITED TAX BONDS, SERIES 2016
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,700,000**

AS BOND COUNSEL FOR THE KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2 (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on _____, 2016 authorizing the issuance of the Bonds (the "Order").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

THE DISTRICT reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.

IT IS FURTHER OUR OPINION that, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the District with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is includable in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations under section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,