OFFICIAL STATEMENT DATED NOVEMBER 15, 2018

Insured Rating (BAM): S&P "AA"
Underlying Rating: Moody's "A3"
See "MUNICIPAL BOND RATINGS" and "INSURANCE" herein

NEW ISSUE BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law, assuming continuing compliance by the Issuer (defined herein) after the date of initial delivery of the Bonds described below (the "Bonds") with certain covenants contained in the Order (defined below) authorizing the Bonds and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), and (2) will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations (see "TAX MATTERS" herein).

THE BONDS HAVE BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS."

Delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law subject to the matters described under "TAX MATTERS".

$5,350,000
HAYS COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2
(A Political Subdivision of the State of Texas Located in Hays County, Texas)
UNLIMITED TAX UTILITY BONDS, SERIES 2018

Dated: December 1, 2018 **Due: September 1, as shown below**

Interest on the herein described bonds (the "Bonds") will accrue from December 1, 2018 and is payable March 1, 2019 and each September 1 and March 1 (each an "Interest Payment Date") thereafter until the earlier of maturity or redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial Paying Agent/Registrar for the Bonds is Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent"). The Bonds are obligations solely of Hays County Water Control & Improvement District No. 2 (the "District") and are not obligations of the City of Dripping Springs, Texas; Hays County, Texas; the State of Texas; Hays County Water Control & Improvement District No. 1 or any entity or political subdivision other than the District.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY. See Appendix B – Bond Insurance and Appendix C – Specimen Municipal Bond Insurance Policy.**

MATURITIES
(Due September 1)

CUSIP Prefix: 421033

Principal Amount	Interest Rate (a)	Due	Initial Reoffering Yield (b)	CUSIP Suffix	Principal Amount	Interest Rate (a)	Due	Initial Reoffering Yield (b)	CUSIP Suffix
$ 180,000	4.00	2019	2.23	EV9	$265,000	4.00	2029*	3.38	FF3
170,000	4.00	2020	2.38	EW7	275,000	3.50	2030*	3.55	FG1
180,000	4.00	2021	2.48	EX5	290,000	3.50	2031*	3.60	FH9
185,000	4.00	2022	2.58	EY3	305,000	3.50	2032*	3.70	FJ5
195,000	4.00	2023	2.68	EZ0	320,000	3.50	2033*	3.80	FK2
205,000	4.00	2024	2.80	FA4	335,000	3.75	2034*	3.85	FL0
215,000	4.00	2025	2.98	FB2	350,000	3.75	2035*	3.90	FM8
225,000	4.00	2026*	3.08	FC0	370,000	3.75	2036*	3.95	FN6
240,000	4.00	2027*	3.18	FD8	390,000	4.00	2037*	4.00	FP1
250,000	4.00	2028*	3.28	FE6	405,000	4.00	2038*	4.05	FQ9

* Optional Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of $5,000, those Bonds maturing September 1, 2026 through 2038, both inclusive, in whole or from time to time in part, on September 1, 2025, and 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

(a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 99.190263% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 3.873104%.

(b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser (as herein defined). The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from December 1, 2018 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the price.

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 to rate or amount, levied against taxable property within the District (as specified in the Bond Order). See "THE BONDS - Source of Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are encouraged to read this entire Official Statement prior to making an investment decision, including particularly the section titled “INVESTMENT CONSIDERATIONS.”

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 Winstead PC, Austin, Texas, Bond Counsel. In addition, certain legal matters will be passed upon for the District by Johnson Petrov LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected on or about December 13, 2018, in Austin, Texas.

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

TABLE OF CONTENTS

(this page intentionally left blank)

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from SAMCO Capital Markets, Inc. for further information.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this "Official Statement" nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the other matters described herein since the date hereof. However, the District has agreed to keep this "Official Statement" current by amendment or sticker to reflect material changes in the affairs of the District, and to the extent that information actually comes to its attention, other matters described in the "Official Statement" until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT - Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of IFS Securities, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page 1 of this Official Statement at a price of 99.190263% of par plus accrued interest to date of delivery. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by and are the sole responsibility of the Initial Purchaser.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole 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 Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other "jurisdiction". The District assumes no responsibility for registration of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND RATINGS AND INSURANCE

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will assign a rating of "AA" (stable outlook) with the understanding that upon the delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM"). The District has made application to Moody's Investors Service ("Moody's") for a municipal bond rating in connection with the Bonds**. On November 7, 2018 Moody's reaffirmed the District's bond rating of A3**. The District's 2018 road bond and 2017 issues had an underlying rating of A3 by Moody's Investors Service and were insured by Assured Guaranty Municipal Corp., which has a current rating of AA by S&P Global Ratings ("S&P"). The District's 2016 bond issue had an underlying rating of BBB- from S&P and was insured by Build America Mutual, which has a current S&P rating of AA.

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

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	Hays County Water Control & Improvement District No. 2 (the "District"), is a political subdivision of the State of Texas, as authorized by Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District was originally created by the Hays County Commissioners Court on January 16, 2001 and validated through the 77th Texas Legislature in May 2001. The District operates pursuant to Chapters 49, 51, and 54 of the Texas Water Code. The District was initially created to provide water services to the approximately 996.56 acres within its boundaries, all of which lie within Hays County, Texas. Subsequently, the District, through the Legislature, was granted the right to provide wastewater and storm drainage. In addition, the District was granted roadway powers by an order of the Texas Commission on Environmental Quality issued on August 31, 2006. On July 30, 2002, the District approved an order showing exclusions, adding lands and redefining boundaries. In this order, a 27.95 acre tract of land was excluded and a 1.89 acre tract of land was added. Also, in this order a 20.99 acre tract was inadvertently omitted from the redefined legal description. The owners of the omitted land petitioned to have the District correct the boundaries. On August 29, 2006 the District approved an order correcting the District boundary. The current official acreage is 970.71 acres currently within the boundaries of the District. See "THE DISTRICT – General."
Location...................................	The District, which encompasses approximately 971 acres of land, is located in northwest Hays County, south of Highway 290 West between Nutty Brown Road and Sawyer Ranch Road. The District lies approximately 15 miles southwest of the City of Austin's central business district and approximately 6 miles east of the City of Dripping Springs central business district. The District lies within the extraterritorial jurisdiction of the City of Dripping Springs, Texas and wholly within the boundaries of the Dripping Springs Independent School District. See "THE DISTRICT."
Developers/Landowners	LH Belterra LLC is the current owner of the property within the District, and has contracted with Ashlar Development, LLC ("Ashlar") for development of such property. The previous developers within the District were MAK Foster Ranch L.P. (sometimes referred to herein as "MAK") and Crescent Belterra TX, LLC, an affiliate of Crescent Communities, LLC ("Crescent"). MAK sold all of its holdings in the District to Crescent Belterra TX, LLC on September 30, 2013. Crescent Belterra TX, LLC sold all of its holdings within the District to LH Belterra LLC on February 17, 2017. See "DEVELOPERS/LANDOWNERS" and "THE DISTRICT – Historical and Current Status of Development". Ashlar's other current projects in the Texas market include Wildridge in Oak Point and The Groves in Houston, and its website is www.ashlardev.com.
Development within the District	Of the approximately 970.71 acres within the District, approximately 312.12 acres are developable under current land development regulations. As of March 2018, utility facilities have been constructed, or are under construction, to serve approximately 99% of the District. Development includes 844 completed single-family homes, 59 homes under construction, and approximately 142 vacant developed single-family lots. In addition to the single-family development, adjacent to the District and available to all the residents of the District are the following amenities: (1) Amenity Center; (2) Junior Olympic pool; and (3) 110.71 acres of planned parks, trail system and greenbelt. The District is part of a Master Planned Community known as Belterra. The District currently includes approximately 3.74 remaining undeveloped but developable acres. See "THE DISTRICT – Historical and Current Status of Development."

Homebuilders	Homebuilders active within the District include Toll Brothers, Sitterle Homes, Brookfield Residential, Wilshire Homes, Highland Homes, Scott Felder Homes, Trendmaker Homes, & Drees Homes. Homes currently under construction within the District range in price from $370,000 to $749,000. See “THE DISTRICT – Historical and Current Status of Development.”

THE BONDS

Description	The Bonds are being issued in the aggregate principal amount of $5,350,000 maturing annually in varying amounts on September 1 of each year from 2019 through 2038. Interest on the Bonds will accrue from December 1, 2018 at the rates per annum set forth on the cover page hereof and is payable March 1, 2019 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..............................	Bonds maturing in the years 2026 through 2038, inclusive, are subject to optional redemption, in whole or from time to time in part, at the option of the District on September 1, 2025, and on any date thereafter at par plus accrued interest from the most recent interest payment date to the date of redemption. See “THE BONDS – Redemption Provisions”.
Source of Payment...................	Principal 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 limited as to rate or amount. **The Bonds are obligations solely of the Hays County Water Control & Improvement District No. 2 and are not obligations of the State of Texas; Hays County, Texas; the City of Dripping Springs, Hays County Water Control & Improvement District No. 1, or any other political subdivision or entity other than the District.** See "THE BONDS - Source of Payment."
Payment Record.......................	This is the District’s eighth issue of Bonds. See “FINANCIAL STATEMENT – Outstanding Bonds”.
Authority for Issuance	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49, 51 and 54 of the Texas Water Code, an election held within the District on September 14, 2002 authorizing the issuance of bonds, an order of the Texas Commission on Environmental Quality (“TCEQ”), and pursuant to an order (the “Bond Order”) adopted by the Board of Directors of the District. See “THE BONDS - Authority for Issuance.”
Use of Proceeds	The proceeds of the Bonds will be used to fund (i) Belterra Phase 1A, Sections 16 and 17 water, wastewater and drainage; (ii) Belterra Phase 1, Section 15 water, wastewater and drainage; (iii) Belterra Phase 21-1 water, wastewater and drainage; (iv) Belterra Phase 1A, Sections 16 and 17; Phase 1, Section 15; Section 21-1, Engineering; (v) Belterra Drive reclaimed water irrigation; (vi) Mesa Verde Park reclaimed water irrigation; Sections 15,16 and 17 reclaimed water irrigation; and (vii) certain other engineering costs of the District. In addition, proceeds of the Bonds will be used to pay certain costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Bonds Authorized But Unissued .... The Bonds are the sixth installment from the $46,185,000 in bonds that were authorized at an election held within the District on September 14, 2002, for the purpose or purposes of purchasing, constructing or otherwise acquiring a waterworks, sanitary sewer, drainage and storm sewer system for the District. After the issuance of the Bonds, $11,835,000 in utility bonds will remain authorized but unissued. The District has $46,185,000 in bonds authorized and $45,865,000 remaining for the purpose of refunding all or any portion of the utility bonds or refunding utility bonds. In addition, $32,070,000 is authorized by the District voters for the construction of a roadway system along with $45,070,000 in road refunding bonds. After the issuance of the District's first road bond issue in early 2018, $28,570,000 in road bonds remain authorized but unissued. However, since the time of authorization, changes in law limit the use of road bonds to the design, acquisition, construction, or financing of thoroughfare, arterial, or collector roads. Under these restraints, the District expects to issue approximately $2,000,000 in additional road bonds.

Municipal Bond Ratings and Insurance .... It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will assign a rating of "AA" (stable outlook) with the understanding that upon the delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM"). The District has made application to Moody's Investors Service ("Moody's") for a municipal bond rating in connection with the Bonds. **On November 7, 2018 Moody's reaffirmed the District's bond rating of A3**. The District's 2018 road and 2017 bond issues had an underlying rating of A3 by Moody's Investors Service and were insured by Assured Guaranty Municipal Corp., which has a current rating of AA by S&P Global Ratings ("S&P"). The District's 2016 bond issue had an underlying rating of BBB- from S&P and was insured by Build America Mutual, which has a current S&P rating of AA. **See Appendix B – Bond Insurance and Appendix C – Specimen Municipal Bond Insurance Policy.**

Qualified Tax-Exempt Obligations .... The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2018 is not reasonably expected to exceed $10,000,000. See "LEGAL MATTERS - Qualified Tax-Exempt Obligations".

Special Counsel .... Andy Barrett & Associates, PLLC, Austin, Texas.

General Counsel .... Matthew B. Kutac, PLLC, Austin, Texas

Bond Counsel .... Winstead PC, Austin, Texas.

Disclosure Counsel .... Johnson Petrov LLP, Houston, Texas.

Financial Advisor .... SAMCO Capital Markets, Inc., Austin, Texas.

District Engineer...................... CMA Engineering, Inc., Austin, Texas.

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds involve certain investment considerations, and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned "INVESTMENT CONSIDERATIONS," with respect to the investment security of the Bonds and other factors described therein.

SELECTED FINANCIAL INFORMATION

(Unaudited as of September 30, 2018)

2018 Assessed Valuation as of January 1, 2018 (100% of estimated market value)	$368,293,762	(a)
Preliminary Valuation (100% of estimated market value as of September 30, 2018)	$389,197,163	(b)
Gross Debt Outstanding (after issuance of the Bonds)	$ 35,910,000	(c)
Ratio of Gross Debt to 2018 Assessed Valuation as of January 1, 2018	9.75%	
Ratio of Gross Debt to Preliminary Assessed Valuation as of September 30, 2018	9.23%	
2018 Tax Rate		
Debt Service ... $0.5807		
Maintenance & Operation ... $0.2943		
Total ... $0.8750		
Debt Service Fund Balance (As of September 30, 2018)	$1,423,853	(d)
Average percentage of current tax collections - Tax Years 2012/2017	99.27%	(e)
Average percentage of total tax collections - Tax Years 2012/2017	99.82%	
Projected Average Annual Debt Service Requirement (2019/2033) of the Bonds and the Outstanding Bonds ("Projected Average Requirement")	$2,702,399	
Tax rate required to pay Projected Average Requirement based upon 2018 Assessed Valuation at 95% collections as of January 1, 2018	$0.78/$100 A.V.	
Tax rate required to pay Projected Average Requirement based upon Preliminary Assessed Valuation as of September 30, 2018 at 95% collections	$0.74/$100 A.V.	
Projected Maximum Annual Debt Service Requirement (2033) of the Bonds and the Outstanding Bonds ("Projected Maximum Requirement")	$2,982,465	
Tax rate required to pay Projected Maximum Requirement based upon 2018 Assessed Valuation at 95% collections as of January 1, 2018	$0.86/$100 A.V.	
Tax rate required to pay Projected Maximum Requirement based upon Preliminary Assessed Valuation as of September 30, 2018 at 95% collections	$0.81/$100 A.V.	
Number of active single-family connections as of September 30, 2018	892	(e)
Estimated population as of September 30, 2018	3,122	(f)

(a) Certified Taxable Assessed Value within the District on January 1, 2018 as provided by the Hays Central Appraisal District ("HCAD". See "TAXING PROCEDURES."

(b) Provided by the Hays Central Appraisal District, as of September 30, 2018, for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of September 30, 2018 and includes a preliminary estimate of values resulting from the construction of taxable improvements from January 1, 2018, through September 30, 2018. Moreover, the ultimate Assessed Valuation of any improvements added from January 1, 2018, through December 31, 2018, which will be placed on the District's 2019 tax roll, may vary from such estimate once the Appraisal Review Board certifies the value thereof for January 1, 2019, and the ultimate Assessed Valuation of any improvements added from January 1, 2018, through December 31, 2018, which will be placed on the District's 2018 tax roll, may vary from such estimate once the Appraisal Review Board certified the value thereof in 2018.

(c) Includes the Bonds. See "FINANCIAL STATEMENT – Outstanding Bonds."

(d) Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

(e) Includes 79 builder connections.

(f) Based on 3.5 residents per completed single-family connection.

PRELIMINARY OFFICIAL STATEMENT

relating to

$5,350,000

HAYS COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2
(A Political Subdivision of the State of Texas Located in Hays County, Texas)
Unlimited Tax Utility Bonds, Series 2018

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Hays County Water Control & Improvement District No. 2 (the "District") of its $5,350,000 Unlimited Tax Utility Bonds, Series 2018 (the "Bonds").

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, 51 and 54 of the Texas Water Code, 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, and pursuant to an approving order of the Texas Commission on Environmental Quality (the "TCEQ") and subsequent amendment thereto.

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 at Winstead PC, 401 Congress Avenue, Suite 2100, Austin, Texas 78701 or during the offering period from the District's Financial Advisor, SAMCO Capital Markets, Inc., Attn: Christina M. Lane, 6805 Capital of Texas Highway, Suite 350, Austin, Texas 78731 upon payment of reasonable copying, mailing and handling charges.

THE BONDS

General Description

The $5,350,000 Hays County Water Control & Improvement District No. 2 Unlimited Tax Utility Bonds, Series 2018 will bear interest from December 1, 2018 and will mature on September 1 in the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the cover page hereof. Interest on the Bonds will be paid on March 1, 2019 and on each September 1 and March 1 (each an "Interest Payment Date") 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 the denomination of $5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrar for the Bonds is Zions Bancorporation, National Association, Houston, Texas ("Paying Agent").

Redemption Provisions

Optional Redemption…The Bonds maturing on and after September 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent payment date to the date fixed for redemption.

Notice of Redemption…The Paying Agent shall give written notice of redemption, by registered mail, overnight delivery, or other comparably secure means, not less than thirty (30) days prior to the redemption date, to each registered securities depository (and to each national information service that disseminates redemption notices) known to the Paying Agent, but neither the failure to give such notice nor any defect therein shall affect the sufficiency of notice given to the Registered Owner as hereinabove stated. The Paying Agent may provide written notice of redemption to DTC by facsimile.

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.

Termination of Book-Entry-Only System

The Bonds are subject to the book-entry-only system administered by 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 Houston, 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 a registered owner at the risk and expense of such registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

Registration… If the book-entry-only system is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount or maturity amount, as the case may be, 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 for Bonds will be without expense or service charged 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 15^{th} 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.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are assessed, levied and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and cost of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest and principal of the Bonds. The Bonds are obligations of the District and are not the obligations of the State of Texas; Hays County, Texas; the City of Dripping Springs, Texas; Hays County Water Control & Improvement District No. 1 or any other political subdivision or any entity other than the District.

Payment Record

This will be the District's eighth installment of bonds from the combined $78,255,000 in utility and road bonds (excluding authorized refunding bonds) authorized by voters in the District.

Funds

In the Bond Order, the Debt Service Fund is created and established, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund.

Upon the receipt by the District of the purchase price for the Bonds, the accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds, including interest earnings thereon, shall be deposited into the Capital Projects Fund, to be used for the purposes described in the Bond Order. Any monies remaining in the Capital Projects Fund after completion of construction of the entire System will be transferred to the Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a more complete description of the use of Bond proceeds and the projects related thereto.

Authority for Issuance

The Bonds are the sixth installment from the $46,185,000 in bonds that were authorized at an election held within the District on September 14, 2002, for the purpose or purposes of purchasing, constructing or otherwise acquiring a waterworks, sanitary sewer, drainage and storm sewer system for the District. After the issuance of the Bonds, $11,835,000 in utility bonds will remain authorized but unissued. The District has $46,185,000 in bonds authorized and $45,865,000 remaining for the purpose of refunding all or any portion of the utility bonds or refunding utility bonds. In addition, $32,070,000 is authorized by the District voters for the construction of a roadway system along with $45,070,000 in road refunding bonds. After the issuance of the District's first road bond issue in early 2018, $28,570,000 in road bonds remain authorized but unissued. However, since the time of authorization, changes in law limit the use of road bonds to the design, acquisition, construction, or financing of thoroughfare, arterial, or collector roads. Under these restraints, the District expects to issue approximately $2,000,000 in additional road bonds.

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, 51 and 54 of the Texas Water Code 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, and pursuant to an approving order of the Texas Commission on Environmental Quality (the "TCEQ") issued on October 26, 2018 (the "TCEQ Order").

By adoption of the TCEQ Order, the TCEQ authorized the District to sell the Bonds subject to certain restrictions, including restrictions on the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS".

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

Registration and Transfer

So long as the Bonds remain outstanding, the Paying Agent shall keep the register at its principal corporate trust office and, subject to such reasonable regulations as it may prescribe, the Paying Agent shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Order.

Each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal corporate trust office of the Paying Agent, duly endorsed for transfer, or accompanied by an assignment duly executed by the registered owner or his authorized representative in form satisfactory to the Paying Agent. To the extent possible and under reasonable circumstances, upon due presentation of any Bond in proper form for transfer, the Paying Agent has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal corporate trust office of the Paying Agent for a Bond of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent is authorized to authenticate and deliver exchange Bonds. Each exchange Bond delivered shall be entitled to the benefits and security of the Bond Order to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered.

Neither the District nor the Paying Agent shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bonds for a period of forty-five (45) days next preceding the selection of Bonds for redemption or to transfer or exchange any Bonds called for redemption.

The District or the Paying Agent may require the registered owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connections with the transfer or exchange of such Bond(s). Any fee or charge of the Paying Agent for such transfer or exchange shall be paid by the District.

Replacement of Paying Agent

Provision is made in the Bond Order for replacement of the Paying Agent by the District. If the Paying Agent is replaced by the District the new Paying Agent shall act in the same capacity as the previous Paying Agent. Any Paying Agent selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent for the Bonds.

Lost, Stolen or Destroyed Bonds

Upon presentation and surrender to the Paying Agent of a mutilated Bond, the Paying Agent shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the registered owner requested by the District or the Paying Agent and an indemnity bond, and such other security or indemnity as is satisfactory to the District and the Paying Agent to hold them harmless, and satisfaction by the registered owner of any other reasonable requirements of the District and the Paying Agent, execute and the Paying Agent shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed Bonds will be required to pay the District's cost to replace such Bonds (including, but not limited to the fees and expenses of the Paying Agent). In addition, the District or the Paying Agent may require the registered owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Debt

The District intends to issue additional bond from its voted authorization. See "THE BONDS – Authority of Issuance" and "THE DISTRICT – General".

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See "INVESTMENT CONSIDERATIONS - Future Debt."

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of such bonds by the Attorney General of Texas. The Board has not considered calling an election for purposes of authorization of a detailed master plan and issuance of bonds for fire-fighting activities at this time but has the legal authority to do so in the future. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water, wastewater, and drainage systems of the district(s) with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

Remedies in Event of Default

Other than a writ of mandamus and other relief authorized by law, the Bond Order does not expressly provide a specific remedy for a default. Although a registered owner could presumably obtain a judgment against the District for a default in the payment of principal or interest, such judgement could not be satisfied by execution against any property of the District. If the District defaults, a registered owner could petition for a writ of mandamus issued by a court of competent jurisdiction requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy may need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. See "INVESTMENT CONSIDERATIONS - Registered Owners' Remedies, and - Bankruptcy Limitation to Registered Owners' Rights."

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to the Public Securities Procedures Act, Chapter 1201, Texas Government Code, as amended and Section 49.186, Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investment for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for the public funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such law that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas or any other political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations, or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues, or from ad valorem taxes or both, and with a commercial bank or trust company designated in the proceeding authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; such deposits may be invested and reinvested only in (a) direct non-callable obligations of the

United States of America, (b) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) 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 governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

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

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

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 use of facilities financed therewith by persons other than state or local governmental units, and the manner in which the proceeds of the Bonds are to be invested. The District may cease 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 compliance with such covenant adversely affects the exclusion from gross income of interest on the Bonds under Section 103 of the Code.

Additional Covenants

The District has additionally covenanted in the Bond Order that, to the extent it has the authority to do so, it will (i) maintain the System in good condition and working order, ordinary wear and tear and obsolescence excepted, and operate the System in an efficient manner and at a reasonable cost, (ii) maintain insurance on the System of a kind and in an amount which usually would be carried by municipal corporations and political subdivisions in Texas engaged in a similar type of business, but considering any governmental immunities to which the District may be entitled, and (iii) 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.

Amendment to Bond Order

The Bond Order contains provisions to the effect that the District may, without the consent of or notice to any registered owners of the Bonds amend, change or modify the Bond Order as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, or (c) in connection with any other change that does not in any respect materially and adversely affect the interest of the registered owners of the Bonds. Except for such amendments, changes or modifications, the District shall not amend, change or modify the Bond Order in any manner without the consent of 51% of the registered owners in aggregate principal amount of the outstanding Bonds.

Alteration of Boundaries

In certain circumstances under Texas law, the District may alter its boundaries to: (1) upon satisfying certain conditions, annex additional territory; and (2) exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal or greater value and sufficient acreage that may be practicably served by District facilities. No representation is made concerning the likelihood that the District would affect any additional changes 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.

BOOK-ENTRY-ONLY SYSTEM

The Bonds will be available only in book-entry form. Consequently, purchasers of ownership interests in the Bonds will not receive certificates representing their respective interests in the Bonds. This section describes how ownership of the Bonds is to be transferred and how the payments of principal of and interest on the Bonds are to be paid to and accredited by Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Underwriters and the District believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission ("SEC"), 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 registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

Principal, interest payments, premium, if any, and redemption proceeds 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 respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent/Registrar's DTC account.

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 as set forth in the Order. 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 registered owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

EXTRATERRITORIAL JURISDICTION AND ANNEXATION

The District lies within the extraterritorial jurisdiction of the City of Dripping Springs, Texas (the “City” or “Dripping Springs”). Under Texas law, a city may annex a special district, such as the District, located within its extraterritorial jurisdiction pursuant to certain statutory provisions that allow for negotiations between the city and the special district as to the timing, terms and conditions of the annexation. When such special district is dissolved, the City succeeds to the powers, duties, assets and obligations of the district. The City and the previous developer of the property within the District, MAK Foster Ranch, L.P. have entered into a Development Agreement (the “Development Agreement”), which, among other provisions, provides for conditions whereby the City could annex the District. In particular, the Development Agreement provides that the City will not annex any part of the District until (1) water, wastewater and drainage facilities have been completed to serve at least 90% of the developable acreage within the District and (2) the developer has been reimbursed by the District for the water, wastewater and drainage facilities serving the District in accordance with the rules of the Texas Commission on Environmental Quality. Upon satisfaction of these conditions to annexation, the City may, but will not be required to, annex the District and no representation is made concerning the annexation of the District by the City or its ability to make debt service payments on the Bonds should annexation occur.

[The rest of this page intentionally left blank.]

USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to fund (A) (i) Belterra Phase 1A, Sections 16 and 17 water, wastewater and drainage; (ii) Belterra Phase 1, Section 15 water, wastewater and drainage; (iii) Belterra Phase 21-1 water, wastewater and drainage; (iv) Belterra Phase 1A, Sections 16 and 17; Phase 1, Section 15; Section 21-1, Engineering; (v) Belterra Drive reclaimed water irrigation; (vi) Mesa Verde Park reclaimed water irrigation; Sections 15,16 and 17 reclaimed water irrigation; and (B) certain engineering and legal costs of the District. In addition, proceeds of the Bonds will be used to pay certain costs associated with the issuance of the Bonds.

The presently estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, $4,458,584 is estimated to be required for construction costs, and $891,416 is estimated to be required for non-construction costs. The use of any surplus Bond proceeds will be subject to TCEQ approval.

Construction Costs:	Amount
A. Developer Contribution Items	
1. Belterra Phase 1A Section 16 and 17 – W, WW, & D	$1,536,630
2. Belterra Phase 1 Section 15 – W, WW, & D	1,125,750
3. Belterra Section 21-1 – W, WW, & D	1,076,308
4. Engineering (9.65% item nos. 1- 3)	360,713
Total Construction Costs	**$4,099,401**
B. District Items	
1. Belterra Reclaimed Water Irrigation – Belterra Drive	$ 35,227
2. Belterra Reclaimed Water Irrigation – Mesa Verde Park	9,198
3. Belterra Reclaimed Water Irrigation – Sections 15, 16, & 17	275,350
4. Engineering (12.69% item nos. 1 & 3)	39,406
Total District Items	**$ 359,181**
TOTAL CONSTRUCTION COSTS	**$4,458,582**

Non-Construction Costs:	Amount
A. Legal Fees (2%)	$ 107,000
B. Fiscal Agent Fees (2%)	107,000
C. Developer Interest (a)	408,908
D. Bond Discount	43,321
E. Bond Issuance Expenses	39,285
F. Bond Application Report	50,000
G. Attorney General's Fee (0.1%)	5,350
H. TCEQ Bond Issuance Fee (0.25%)	13,375
I. Contingency (b)	117,179
TOTAL NON-CONSTRUCTION COSTS	**$ 891,418**
TOTAL BOND ISSUE REQUIREMENT	**$5,350,000**

(a) Projected, pending reimbursement audit approval.
(b) In its approval of the issuance of the Bonds, the TCEQ directed any surplus bond proceeds resulting from the sale of the Bonds at lower interest rate (than anticipated in the Bond Application Report) to be shown as a contingency line item and be subject to the TCEQ rules on use of surplus bond funds

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Hays County, Texas; Dripping Springs, Texas; Hays County Water Control & Improvement District No. 1 or any other entity or political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Source of 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 the 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 and Interest Rates: 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 of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing values.

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Lenders have been selective in recent years in making real estate loans in the Austin area because of the negative impact to their real estate portfolios. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. 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, although located approximately 15 miles from the central downtown business district of the City of Austin, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economies.

Competition: The demand for and construction of single-family homes in the District could be affected by competition from other residential developments including other residential developments located in other utility districts 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 Austin that are for sale. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the developers 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 developers will be implemented or, if implemented, will be successful.

Developer Under No Obligation to the District: The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer, or any other subsequent landowners to whom a party may sell all or a portion of its holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts and failure of the Developer to develop its land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developer (see "TAX DATA - Top Ten Taxpayers") for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of the Developer will be or what effect, if any, such condition may have on the Developers ability to pay taxes. See - “DEVELOPERS/LANDOWNERS."

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The 2018 assessed valuation of the District is $368,293,762 and the preliminary estimate assessed value as of September 30, 2018 is $389,197,163 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement is estimated to be $2,982,465 (2033) and the Average Annual Debt Service Requirement is estimated to be $2,702,399 (2019 through 2033, inclusive). Based on the 2018 assessed valuation and no use of funds on hand, a tax rate of $0.86 per $100 assessed valuation, at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement of $2,982,465 and a tax rate of $0.78 per $100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of $2,702,399. Assuming (1) no increase or decrease in the assessed valuation as of September 30, 2018 and (2) no use of funds on hand, a tax rate of $0.81 per $100 assessed valuation, at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement of $2,982,465 and a tax rate of $0.74 per $100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of $2,702,399. See "PRELIMINARY DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

Tax Collections and Foreclosure Remedies

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

Registered Owners' Remedies

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

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners of the Bonds 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 U.S. 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 dismisses 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 generally 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 TCEQ as a condition to seeking relief under the U.S. Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under 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 determining 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") and the Resolution Trust Corporation ("RTC") when the FDIC/RTC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA real property held by the FDIC/RTC is still subject to ad valorem taxation, but FIRREA states (i) that no real property of the FDIC/RTC shall be subject to foreclosure or sale without the consent of the FDIC/RTC and no involuntary liens shall attach to such property, (ii) the FDIC or RTC 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.

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/RTC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC/RTC 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 - Tax Exemption."

Future Legislation

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

Future Debt

The District reserves in the Bond Order the right to issue its remaining authorized but unissued utility and road bonds (see "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued"), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

There is currently an estimated $3,700,000 for water, wastewater and drainage facilities and $2,000,000 for roads in advanced funds or costs due to developers or landowners within the District, which may need to be reimbursed by the District in the future. The District may issue bonds to reimburse such costs or may use a combination of cash on hand and bond proceeds to reimburse such costs. With respect to the District's issuance of additional utility bonds to reimburse such costs, the District may do so after approval of the TCEQ. The District does not require TCEQ additional approval for the issuance of road bonds. In addition, future, changes in health, environmental, or other governmental regulations could require the construction and financing of additional improvements by the District without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt."

Approval of the Bonds

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS". 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.

[The rest of this page intentionally left blank.]

DISTRICT MAP

THE DISTRICT

General

The District was created by and approved by the Hays County Commissioners Court on January 16, 2001. An Act of the 77th Texas Legislature (House Bill 3629) effective June 16, 2001 validated the creation of the District and granted it all powers, privileges, authority, functions, and duties provided by Chapters 49, 51, and 54 of the Texas Water Code. The District operates as a water control and improvement district pursuant to the provisions of Chapters 49, 51, and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to water control and improvement districts and municipal utility districts. The District is subject to the continuing supervision of the TCEQ and is located within the extraterritorial jurisdiction of the City of Dripping Springs, Texas and within the boundaries of Dripping Springs Independent School District.

The District was initially created to provide water service to the approximately 996.56 acres within its boundaries, all of which lie within Hays County, Texas. Subsequently, the District, through the Legislature, was granted the right to provide wastewater and storm drainage. On July 30, 2002, the District approved an order showing exclusions, adding lands and redefining boundaries. In this order, a 27.95 acre tract of land was excluded and a 1.89 acre tract of land was added. Also, in this order a 20.99 acre tract was inadvertently omitted from the redefined legal description. The owners of the omitted land petitioned to have the District correct the boundaries. On August 29, 2006 the District approved an order correcting the District boundary. The current official acreage is 970.71 acres currently located within the boundaries of the District.

The District has the statutory authority, 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; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal service and is empowered to 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. The District contracts for waste collection and disposal services. The District has no present plans to provide a fire department. Fire protection and emergency services within the District are provided by the Hays County Emergency Services District No. 6. The District is also empowered to and does operate and maintain certain recreational facilities within the District. By order dated August 31, 2006, the TCEQ granted the District the authority to purchase, construct and maintain certain types of roadways within the District.

Location

The District is located in northwest Hays County, south of Highway 290 West, between Nutty Brown Road and Sawyer Ranch Road, approximately, 11 miles west of the intersection of U.S. Highway 290 and Loop 1 (MoPac) and approximately 6 miles east of the of the City of Dripping Springs, Texas (the "City" or "Dripping Springs"). The District is situated on Highway 290 and lies within the extraterritorial jurisdiction of the City of Dripping Springs. The District is located approximately 15 miles southwest of the central business district of Austin, Texas.

Management of the District

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 Saturday in May in each even numbered year. All of the Directors own property in the District.

Name	Position	Length of Service	Term Expires May
Royce Wachsmann	President	10 years	2020
Samantha E. Bethke	Vice President	1 years	2022
Sean McGillicuddy	Secretary	1 years	2020
William Carroll Kelly IV	Treasurer/Asst. Sec.	1 years	2020
Bill Harris	Assistant Secretary	7 months	2022

Consultants

Tax Assessor/Collector

Land and improvements in the District are being appraised by the Hays Central Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Hays County Tax Assessor/Collector, Ms. Luanne Caraway, currently serves the District in this capacity under contract.

General Manager

The District contracts with Inframark, LLC, formerly known as Severn Trent Environmental Services ("Inframark") as its General Manager to operate the District's utility system and provide administrative, customer service and bookkeeping services to the District.

Engineer

The District's consulting engineer is CMA Engineering, Inc. (the "Engineer").

Auditor

The District's audited financial statements for the year ended September 30, 2017 were prepared by Maxwell Locke & Ritter L.L.P. See APPENDIX A for a copy of the District's year end September 30, 2017 audited financial statements.

Financial Advisor

SAMCO Capital Markets, 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 the percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds. The Financial Advisor has been authorized through a resolution of the Board to submit a bid for the purchase of the Bonds.

Bond & Special Counsel

The District has engaged Winstead PC, Austin, Texas, as Bond Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds. Barrett & Associates, PLLC, Austin, Texas serves as the District's special counsel and a portion of its fees are contingent upon the sale and delivery of the Bonds.

General Counsel

The District has engaged the law office of Matthew B. Kutac, PLLC., Austin, Texas, as General Counsel.

Disclosure Counsel

The District has engaged Johnson Petrov LLP, Houston, Texas, as disclosure counsel. A portion of its fees are contingent upon the sale and delivery of the Bonds.

Historical and Current Status of Development

Development of the initial section of Belterra Subdivision began in 2003. From 2003 to present, development and construction of single-family homes has continued on a constant basis. As of March 2018, 995 lots have been developed within the District.

From January 2006 through September 2018, 844 homes have closed within the District with an average sales price of $494,000.

Developed with Utility Facilities

Section	Acreage	Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
11A	21.55	107	107	0	0
11B	12.67	63	63	0	0
12A	26.26	123	123	0	0
12B	21.39	99	94	2	3
13	32.64	123	123	0	0
14	22.49	85	84	0	1
15	15.87	80	45	8	27
16	21.92	77	44	11	22
17	13.10	38	33	2	3
18	23.63	71	71	0	0
19A	11.27	30	15	4	11
19B	15.70	41	24	2	15
20-1	15.48	51	0	10	41
21-1	14.41	57	18	20	19
Propane Site	3.17	1	0	0	0
Subtotal:	**271.55**	**1,046**	**844**	**59**	**142**

A. Lots Platted; but not developed with Utility Facilities

1. Final Platted (a)

Section	Acreage	Platted Lots
Church	7.33	1
21-2	24.40	78
20-2	5.10	15
Subtotal:	**36.83**	**94**

(a) Currently under construction, final plats have been approved by the City of Dripping Springs and preliminarily approved by Hays County. Section 20-2 and 21-2 estimated completion October 2018.

2. Preliminary Platted

Section	Acreage	Platted Lots
Fire Station	3.74	1
Subtotal:	**3.74**	**1**

B. Other

Streets (ROW)	109.10
Parks, Trails & Greenbelt	435.38
FEMA Flood Plain	60.42
Wastewater Plant	53.69
Subtotal:	**658.59**
Total Acreage:	**970.71**

Additional development is available for use by the residents of the District, but not located within in the District's boundaries, are the following: Amenity Center, Junior Olympic pool, and 110.71 acres of planned parks and a trail system. The Amenity Center and Junior Olympic pool are owned and operated by the Belterra Community Association. Facilities are available to all residents of the District. A Splash Pad was recently added for use by all residents. The elementary school site located within the Hays County Water Control & Improvement District No. 1 consisting of approximately 12.578 acres was donated to the Dripping Springs Independent School District by the Developer.

Future Development

The District contains approximately 3.74 remaining undeveloped but developable acres under current land development regulations all of which is owned by the current developer within the District, LH Belterra, LLC ("Developer"). The Developer has stated that its current intention is to convey the remaining undeveloped but developable acreage to Hays County Emergency Services District No. 6 for development of a fire and emergency services station; however, it is under no obligation to continue development.

Annexation of the District

The District lies solely within the extraterritorial jurisdiction of the City of Dripping Springs, Texas. See "EXTRATERRITORIAL JURISDICTION AND ANNEXATION" for a discussion of the ability of the City of Dripping Springs to annex the District.

DEVELOPERS/LANDOWNERS

Role of the Developers/Landowners

In general, the activities of a landowner or developer in a utility district, such as the District, include, among other activities, purchasing land within the future district, petitioning for creation of the district, designing the development, defining a marketing program, planning and scheduling 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 in the utility district) 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 amenity design and construction and, in some cases, up to 30% of the costs of construction 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 under no obligation to a district to undertake development activities with respect to other property it owns within the district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of the developer to perform such activities in development of the property within the utility district may have a profound effect on the security for the bonds issued by a district.

Description of the Developers/Landowners

MAK Foster Ranch, LP, a Delaware limited partnership (formerly named CPH Foster Ranch, LP) was the original developer within the District.

On September 30, 2013, MAK Foster Ranch L.P. sold all of its holdings in the District to Crescent Belterra TX, LLC. Crescent Belterra TX, LLC is an affiliate of Crescent Communities, LLC ("Crescent"), a real estate development company established in 1969 and based in Charlotte, North Carolina. Crescent is a master-planned community developer with extensive history in primary and second home communities focused on Southeast and Southwest markets.

On February 17, 2017, Crescent Belterra TX, LLC sold all of its remaining holdings in the District to LH Belterra LLC. LH Belterra LLC has contracted with Ashlar Development LLC for development and management of its property within the District. Ashlar was founded in 2017 by principals previously responsible for management of Crescent's development projects in the Texas market, including development within the District. Ashlar's website is www.ashlardev.com/.

Agricultural Waiver

MAK previously executed an agreement affecting approximately 631.53 acres within the District, which is recorded in the real property records of Hays County and is a covenant running with the land, waiving the right to have undeveloped land located within the District classified as agricultural, open-space or timberland. In addition, such agreement waives the right of a developer to have its lots and houses (if any) classified as business inventory. Such agreement may not be modified without the approval of the TCEQ and is binding on purchasers of such land. See "TAXING PROCEDURES – Property Subject to Taxation by the District."

Utility Construction Agreements

The District is a party to that certain Second Amended Agreement for the Construction and Purchase of Facilities and Reimbursement for Costs and amendments thereto with MAK, as assigned to Crescent Belterra TX, LLC on September 30, 2013, and subsequently assigned to LH Belterra LLC on February 17, 2017, all with the consent of the District, which defines the conditions under which the District will issue additional bonds to reimburse such entity for the water, wastewater, drainage and approved road facilities within and outside the District. Under the terms of the agreement, the District has agreed to repay the cost of facilities through a series of bond sales over time. The District's obligation to issue bonds and reimburse the entity for funds advanced for facilities is subject to various conditions including approval of water, wastewater and drainage facilities and bonds by the TCEQ and the Texas Attorney General, approval of bonds for road facilities by the Texas Attorney General, and the recommendation of the District's financial advisor that the sale of the bonds is feasible and prudent.

ROADWAY SYSTEM

All of the existing roads and improvements in aid thereof ("Road System") that currently lie within the District's boundaries have been financed to date with funds advanced by certain developers. The majority of the roads necessary to serve the District have been constructed, with the remainder currently under construction. The Road System consists of local, minor collector and minor arterial roads as classified in the Hays County development regulations.

Roads within the District are designed and constructed in general accordance with Hays County and City of Dripping Springs design criteria and are maintained by Hays County.

THE WATER, WASTEWATER AND DRAINAGE SYSTEM

General

The water, wastewater and drainage facilities constructed to date 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. According to CMA Engineering, Inc. (the "Engineer"), the design of all such facilities has been approved by all governmental agencies, which have jurisdiction over the District.

Operation of the District's waterworks, wastewater, and drainage facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. Regulations promulgated by these agencies are subject to further development and revision.

Water System

Water is currently supplied to the District pursuant to a contract with the Lower Colorado River Authority for raw water, and a water services agreement for treated water with the West Travis County Public Utility Agency. Treated water is provided through an existing 20-inch waterline at the intersection of Belterra Drive and Sawyer Ranch Road. In addition, the District has installed a 6-inch master meter on a 12-inch waterline at its boundary with Hays County Water Control & Improvement District No. 1. This provides a second water supply connection point for the District. The District provides retail water service, and billings to individual residences are handled directly by Inframark through a contract with the District. The District's agreement with the West Travis County Public Utility Agency provides for a peak daily flow rate of 1,166,170 gallons per day and reserved capacity in the West Travis County Public Utility Agency's system for 1,146 living unit equivalents.

Wastewater System

Wastewater treatment is provided by Hays County Water Control & Improvement District No.1 ("District No. 1") pursuant to a contract between the District and District No. 1. On March 16, 2009, the TCEQ issued an amendment to District No. 1's Texas Pollutant Discharge Elimination System Permit No. WQ0014293001 ("TPDES Permit"). The TPDES Permit, as amended, authorizes the discharge of up to 150,000 GPD via subsurface drip irrigation, and direct discharge of 350,000 GPD to Bear Creek pursuant to the terms and effluent limitations contained within the TPDES Permit. Since the issuance of the amended TPDES Permit, the District has, jointly with District No. 1, constructed a 500,000 GPD permanent shared capacity wastewater treatment plant. This plant jointly serves both Districts. The 150,000 GPD subsurface drip irrigation system and 155,672 GPD of the total 350,000 GPD surface irrigation system required by the TPDES Permit, have been constructed to date for effluent disposal capacity. The total effluent disposal capacity currently is 305,672 GPD. The developer within the District has provided an irrevocable standby letter of credit of credit in the amount of $514,650.00 as financial guaranty for funding of 21.9 acres of such system to meet TCEQ feasibility requirements in connection with approval for issuance of the Bonds. The developer has recently requested bids for construction of the remaining 194,328 GPD of surface irrigation system for effluent disposal capacity (such bids included the 21.9 acres described above). The remaining necessary effluent disposal capacity is expected to be added in accordance with the requirements of the amended TPDES Permit.

District No. 1 holds legal title to the wastewater plant site, the 500,000 GPD permanent wastewater treatment facility, and a joint lift station site for the benefit of both Districts. Each District has an undivided, equitable interest in the capacity of the joint lift station site, in the amount of 18% for the District and 82% for District No. 1. Each District has an undivided equitable interest in the capacity of the 500,000 GPD permanent wastewater treatment facility, in the amount of 46% for the District and 54% for District No. 1.

The TPDES Permit has been renewed by the Texas Commission on Environmental Quality on October 6, 2016 and must be renewed again by September 1, 2019.

Drainage System

The storm drainage system that serves the District consists of curb and gutter streets and storm sewers that mostly outfall into water quality treatment ponds. The water quality ponds treat storm water by capturing the runoff and either filtering it through a sand media or through the biological processes associated with a wet pond. The District currently operates eight (8) water quality ponds. The facilities are designed in accordance with TCEQ requirements. In addition, the District currently operates one storm water detention pond and shares another with District No. 1.

100-Year Flood Plain

According to U.S.G.S. topographic maps and Federal Insurance Administration ("FIA") maps, the District is relatively rolling terrain with elevations ranging from 990 to 1,238 feet above mean sea level. Approximately 60 acres of the District lie within the FEMA 100-year flood plain. This acreage has been planned as green space and will not be used for development.

Future Utility System Debt

$11,835,000 in unlimited tax utility bonds will remain authorized but unissued (excluding authorized refunding bonds). See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued." There is currently an estimated $3,700,000 for utility system facilities owed to the Developers for current and previous development. In the opinion of the District's Engineer, the remaining $11,835,000 in authorized but unissued utility bonds should be sufficient to fully reimburse the Developers for current advances and provide for the financing of future required utilities, as currently allowed by the TCEQ, for the remaining undeveloped but potentially developable acreage.

Roadway System Debt

$28,570,000 in unlimited tax road bonds will remain authorized but unissued (excluding authorized road refunding bonds). See "FINANCIAL STATEMENT- Unlimited Tax Bonds Authorized but Unissued." Due to changes in law since the District's bond authorization, the District does not anticipate issuance of road bonds in the full amount authorized and anticipates such remaining road bonds authorized will be limited to reimbursement for the design and construction of roads meeting the criteria of Hays County for a "thoroughfare, arterial or collector road". The District's engineer has confirmed that the road bonds anticipated to be issued in 2019 of approximately $2,000,000 will be sufficient to fully reimburse the Developer for the remaining eligible road system costs.

Water and Wastewater Operations

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 rates and fees for the District's water and sewer service, which have been in effect since October 2016.

Water (Monthly Billing)

Base Rate 5/8" Meter	$35.00
0 to 2,000	$2.30 per 1,000 gallons
2,001 to 5,000	$3.85 per 1,000 gallons
5,001 to 10,000	$4.24 per 1,000 gallons
10,001 to 20,000	$4.88 per 1,000 gallons
20,001 to 25,000	$5.86 per 1,000 gallons
25,001 to 30,000	$7.03 per 1,000 gallons
30,001 to 40,000	$10.55 per 1,000 gallons
Over 40,000	$15.83 per 1,000 gallons

Wastewater (Monthly Billing)

Single Family	
Base Rate	$35.00
Per 1,000 gallons of winter average water usage	$ 3.63 per 1,000 gallons

Solid Waste – (Residential only)	$22.00

[The rest of this page intentionally left blank.]

Water and Wastewater Operating Statement

The following statement sets forth in condensed form the historical operations of the District's water and sewer system. Such summary has been prepared upon information obtained from the District's audited financial statements and records. Reference is made to such statements for further and more complete information. See "APPENDIX A – Audited Financial Statement.

	Fiscal Year End				
	09/30/18(b)	09/30/17(a)	09/30/16(a)	09/30/15 (a)	09/30/14 (a)
REVENUE					
Water & Wastewater Service	$917,416	$873,764	$665,142	$505,086	$333,590
Tap Connection/Inspection Fees	214,100	212,432	212,762	173,333	154,341
Park Fee	91,500	66,750	95,250	75,000	65,250
Basic Services (d)	904,732	828,161	712,473	576,927	423,957
Property Taxes	706,764	1,104,911	926,275	565,893	554,265
Interest Income	26,307	1,424	792	16	45
Penalties & Interest on tax accts	1,221	1,713	1,756	523	545
Park Grant	0	0	0	0	0
Other	0	0	0	0	0
TOTAL REVENUES	$2,862,040	$3,089,155	$2,614,450	$1,896,778	$1,531,993
EXPENDITURES					
Service Operations:					
Repairs & Maintenance	847,035	614,842	$611,932	$524,864	$466,809
Legal Fees	137,700	146,348	105,746	109,700	98,973
Bulk Water Purchases	261,521	237016	234,722	185,188	180,137
Engineering Fees	47,192	44,519	89,007	29,380	67,151
WTPUA (previously LCRA) Reservation Fees	47,278	49,897	51,760	58,102	53,305
WTPUA (previously LCRA) Base Fees	204,909	211,564	155,210	158,039	126,772
Management Services	258,508	281,750	90,832	78,301	71,214
Garbage Services	184,360	157,186	130,139	111,703	96,667
Director's Fees	21,970	18,752	21,554	14,903	19,140
Audit Fees	15,500	16,500	22,000	14,000	14,000
Insurance	2,798	7,400	6,518	5,836	9,659
Tap Inspection Fees	0	51,080	82,792	53,711	44,064
Financial Advisor Fees	2,500	2,500	2,700	2,500	2,500
Other	16,139	38,067	32,977	18,500	24,836
Capital Outlay (c)	54,795	178,416	0	0	0
TOTAL EXPENDITURES	$2,102,205	$2,055,837	$1,637,889	$1,364,797	$1,289,271
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 759,835	$1,033,318	$976,561	$531,981	$242,222
OTHER SOURCES.					
Transfers In	93,747				86,846
NET CHANGE IN FUND BAL.	$ 853,582	$1,033,318	$976,561	$531,981	$329,568
FUND BALANCE:					
Beginning of Year	$3,557,443	$2,524,125	$1,547,564	$1,015,583	$686,015
End of Year	$4,411,025	$3,557,443	$2,524,125	$1,547,564	$1,015,583

(a) Audited.
(b) Unaudited.
(c) One-time capital expenses.
(d) New category includes base fee and trash**.**

FINAL DEBT SERVICE REQUIREMENTS

HAYS COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2
$5,350,000
Unlimited Tax Utility Bonds, Series 2018

Issue Dated: December 1, 2018
First Interest Payment Due: March 1, 2019

Year	Outstanding Bonds			Series 2018					Total
Ending				Principal	Interest			Principal	Debt Service
12/31	Principal	Interest	Total	(Due09/01)	(Due 03/01)	(Due 09/01)	Total	& Interest	Requirement
2018	1,030,000	430,566	1,460,566						
2019	1,210,000	872,841	2,082,841	180,000	51,353	102,706	154,059	334,059	2,416,900
2020	1,270,000	844,396	2,114,396	170,000	99,106	99,106	198,213	368,213	2,482,609
2021	1,335,000	813,922	2,148,922	180,000	95,706	95,706	191,413	371,413	2,520,334
2022	1,395,000	781,082	2,176,082	185,000	92,106	92,106	184,213	369,213	2,545,295
2023	1,470,000	748,326	2,218,326	195,000	88,406	88,406	176,813	371,813	2,590,138
2024	1,535,000	711,452	2,246,452	205,000	84,506	84,506	169,013	374,013	2,620,464
2025	1,610,000	672,187	2,282,187	215,000	80,406	80,406	160,813	375,813	2,658,000
2026	1,690,000	630,280	2,320,280	225,000	76,106	76,106	152,213	377,213	2,697,492
2027	1,775,000	585,315	2,360,315	240,000	71,606	71,606	143,213	383,213	2,743,527
2028	1,850,000	548,679	2,398,679	250,000	66,806	66,806	133,613	383,613	2,782,291
2029	1,935,000	494,149	2,429,149	265,000	61,806	61,806	123,613	388,613	2,817,762
2030	2,025,000	434,866	2,459,866	275,000	56,506	56,506	113,013	388,013	2,847,879
2031	2,125,000	371,103	2,496,103	290,000	51,694	51,694	103,388	393,388	2,889,490
2032	2,240,000	303,100	2,543,100	305,000	46,619	46,619	93,238	398,238	2,941,337
2033	2,350,000	229,902	2,579,902	320,000	41,281	41,281	82,563	402,563	2,982,465
2034	1,765,000	152,656	1,917,656	335,000	35,681	35,681	71,363	406,363	2,324,019
2035	875,000	97,156	972,156	350,000	29,400	29,400	58,800	408,800	1,380,956
2036	910,000	69,275	979,275	370,000	22,838	22,838	45,675	415,675	1,394,950
2037	955,000	40,013	995,013	390,000	15,900	15,900	31,800	421,800	1,416,813
2038	240,000	8,400	248,400	405,000	8,100	8,100	16,200	421,200	669,600
	$31,590,000	$9,839,664	$41,429,664	$5,350,000	$1,175,934	$1,227,288	$2,403,222	$7,753,222	$47,722,321

FINANCIAL STATEMENT
(Unaudited as of September 30, 2018)

Assessed Value

2018 Assessed Valuation (100% of estimated market value) as of January 1, 2018	$368,293,762 (a)
Preliminary Valuation at (100% of estimated market value as of September 30, 2018)	$389,197,163 (b)
Gross Debt Outstanding	$ 35,910,000 (c)
Debt Service Fund Balance (As of September 30, 2018) (d)	$ 1,423,853 (d)
Ratio of Gross Debt to 2018 Assessed Valuation as of January 1, 2018	9.75%
Ratio of Gross Debt to Preliminary Valuation as of September 30, 2018	9.23%

Estimated as of September 30, 2018 Population: 3,122 (e)

(a) Certified Taxable Assessed Value within the District on January 1, 2018 as provided by the Hays Central Appraisal District ("HCAD"). See "TAXING PROCEDURES".
(b) Provided by the Hays Central Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of September 30, 2018, and includes the preliminary value resulting from the construction of taxable improvements from January 1, 2018, through December 31, 2018. Moreover, the ultimate Assessed Valuation of any improvements added from January 1, 2018, through December 31, 2018, which will be placed on the District's 2019 tax roll, may vary from such preliminary once the Appraisal Review Board certifies the value thereof for January 1, 2019, and the ultimate Assessed Valuation of any improvements added from January 1, 2018, through December 31, 2018, which will be placed on the District's 2019 tax roll, may vary from such estimate once the Appraisal Review Board certified the value thereof in 2019.
(c) After issuance of the Bonds. See "PRELIMINARY DEBT SERVICE REQUIREMENTS".
(d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
(e) Based on 3.5 residents per active single-family connection.

Unlimited Tax Bonds Authorized but Unissued

Date Authorization	Purpose	Authorized	Issued	Unissued
09/14/02	Waterworks, Sanitary Sewer and Drainage System	$46,185,000	$ 34,350,000 (a)	$11,835,000
11/07/06	Roadway System (b)	$32,070,000	$ 3,500,000	$28,570,000
Total		$78,255,000	$37,850,000	$40,405,000

(a) Including the Bonds.
(b) Since the time of authorization, changes in law limit the use of road bonds to the design, acquisition, construction, or financing of thoroughfare, arterial, or collector roads. Under these parameters, the District estimates that it will issue an additional $2,000,000 in road bonds in the future.

Unlimited Tax Refunding Bonds Authorized but Unissued

Date Authorization	Purpose	Authorized	Issued to Date	Unissued
09/14/02	Waterworks, Sanitary Sewer and Drainage System	$46,185,000	$ 3,885,000	$45,865,000
11/07/06	Roadway System	$45,070,000	$ 0	$45,070,000
Total		$91,255,000	$3,885,000	$90,935,000

Outstanding Bonds

A. Dated Date	Series	Purpose	Original Principal Amount	Principal Amount Outstanding 11/01/18
11/01/10	2010	W/W & Drainage	$4,750,000	$ 520,000
10/01/13	2013	Water, W/W & Drainage	$3,500,000	$2,925,000
09/01/14	2014	Water, W/W & Drainage	$5,250,000	$5,045,000
04/01/16	2016	Water, W/W & Drainage REFUNDING	$3,885,000	$3,800,000
07/01/16	2016	Water, W/W & Drainage	$6,000,000	$5,560,000
11/01/17	2017	Water, W/W & Drainage	$9,500,000	$9,210,000
04/01/18	2018	Road Bonds	$3,500,000	$3,500,000
11/01/18	2018	Water, W/W & Drainage	$5,350,000 (a)	$5,350,000
			$41,735,000	$35,910,000

(a) The Bonds.

Cash and Investment Balances (Unaudited as of September 30, 2018)

Operating Fund	$4,449,780
Wastewater Treatment Plant Fund	$82,407
Park Fund	
Debt Service Fund	$1,423,853 (a)
Capital Projects Fund	$300,629

(a) 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

The District has adopted an Investment Policy (the "Policy") as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The District's goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent not insured by the FDIC, secured by collateral authorized by the Public Funds Collateral Act, and in TexPool and Texas Class, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the portfolio.

Current Investments

The District's funds are currently invested in various Bank Money Market Accounts and Bank CD's in accordance with the Public Funds Investment Act. This investment portfolio is generally representative of the District's investment practices although the District has in the past or may in the future also invest in authorized Government Securities. 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. The District currently marks its investments to market price monthly.

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 the "Texas Municipal Report," 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 such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

	Gross Debt		% of Overlpg.	Amount of Overlpg.	
Taxing Body	**Amount**	**As of**	**Gross Debt**	**Gross Debt**	
Hays County	$422,675,000	09/30/18	1.65%	$ 6,974,138	
Dripping Springs ISD	$177,589,999	09/30/18	8.23%	$14,615,657	
TOTAL ESTIMATED GROSS OVERLAPPING DEBT				$21,589,795	
The District (a)		9/30/18	100.00%	$35,910,000	(a)
TOTAL GROSS DIRECT DEBT & ESTIMATED OVERLAPPING DEBT:				$57,499,795	(a)
Ratio of Gross Direct & Overlapping Debt to 2018 Assessed Valuation as of January 1, 2018				16.03% (a)	
Ratio of Gross Direct & Overlapping Debt to Preliminary Assessed Valuation as of September 30, 2018				14.77% (a)	

(a) After issuance of the Bonds.

Overlapping Taxes for 2018

Overlapping Entity	2018 Tax Rate Per $100 Assessed Valuation	Average Tax Bill (a)
Hays County	$0.3899	$1,728
Dripping Springs Independent School District	1.5200	6,738
Hays County ESD No. 6	0.0785	348
North Hays County ESD No. 1	0.0300	133
Special Road District	0.0438	194
The District	0.8750	3,879
Total	$2.9372	$13,020

(a) **Based upon the 2018 average single-family home value of $443,267.**

TAX DATA

Classification of Assessed Valuation (a)

Type Property	2018 Amount	2018 %	2017 Amount	2017 %
Real, Res. Single-Family	$346,385,390	94.22	$295,677,066	92.53
Real, Vacant Lots	3,300,310	0.90	3,636,640	1.14
Real, Acreage (Land only)	1,393,790	0.38	1,326,410	0.42
Real, Farm/Ranch	402,080	0.11	829,520	0.26
Real, Commercial & Indus (b)	13,710	0.00	0	0.00
Tangible Personal	225,594	0.06	407,415	0.13
Real, Inventory.	15,174,570	4.13	17,000,550	5.32
Exempt Property	741,730	0.20	676,940	0.20
Total	$367,637,174	100.00%	$319,554,541	100.00%

(a) Reflects classification of assessed valuation as supplied by the Hays Central Appraisal District ("HCAD") prior to adjustments or exemptions. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by HCAD.
(b) Less than 1%

Tax Collections

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District audits and records of the District Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information. See "Classification of Assessed Valuation" above.

	Assessed Valuation	Tax Rate	Tax Levy	Current Amount	Current %	Total Amount	Total %	Year Ending
2012	83,581,410	0.875	731,337	717,015	98.01	729,670	99.78	09/30/13
2013	108,390,185	0.875	948,414	942,653	99.39	946,231	99.77	09/30/14
2014	149,759,117	0.875	1,310,392	1,307,415	99.77	1,307,990	99.82	09/30/15
2015	193,710,582	0.875	1,694,968	1,674,602	98.79	1,692,403	99.85	09/30/16
2016	249,212,883	0.875	2,180,613	2,177,916	99.88	2,177,916	99.88	09/30/17
2017	315,136,301	0.875	2,757,443	2,751,941	99.80	2,751,941	99.80	09/30/18 (a)
2018	368,293,762	0.875	3,138,119	9,131				09/30/19 (b)

(a) The 2017 tax collections through September 30, 2018.
(b) Taxes are levied in September each year and invoices are sent out in October and become due January 31 each year.

District Tax Rates

Tax Rate Per $100 A.V.	2018	2017	2016	2015	2014	2013
Debt Service	$0.5807	$0.6528	$0.4311	$0.3975	$0.500	$0.370
Maintenance	$0.2943	$0.2222	$0.4439	$0.4775	$0.375	$0.505
Total	$0.8750	$0.8750	$0.8750	$0.875	$0.875	$0.875

Debt Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect a continuing direct ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes, which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any tax bonds which may be issued in the future. At an election held within the District on May 5, 2001, voters of the District authorized the levy of a maintenance tax unlimited in rate or amount. As shown above under "District Tax Rates", the District levied maintenance and operations tax of $0.2943 per $100 assessed valuation for tax year 2018.

Top Ten Taxpayers

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

Taxpayer	Type of Property	2018	2017
Trendmaker Homes Inc.	Lots, Homes	$3,876,700	$2,131,514
LH Belterra LLC	Land, Vacant Lots	3,335,020	5,864,770
Sitterle Homes-Austin LLC	Lots, Homes	2,684,880	2,803,460
Grand Haven Homes LP	Lots, Homes	(a)	2,316,870
MHI Partnership Ltd	Lots, Homes	1,262,390	(a)
Scott Felder Homes LLC	Lots, Homes	822,830	2,220,020
Drees Custom Homes LP	Lots, Homes	(a)	1,230,090
Individual	2 Residences	(a)	1,211,210
Individual	Residence	803,400	(a)
Individual	Residence	774,580	(a)
Individual	Residence	768,040	(a)
Individual	Residence	740,770	721,970
Highland Homes-Austin LLC	Lots, Homes	739,930	771,660
Individual	Residence	(a)	689,340
Total		$15,080,540	$19,960,904
Percent of Assessed Valuation		4.20%	6.33%

(a) Not a taxpayer in respective year.

Tax Adequacy for Debt Service

The calculations shown below are solely for purposes of illustration only and are based on the certified assessed value for 2018 as of January 1, 2018 and the Preliminary Valuation as of September 30, 2018 and utilize tax rates adequate to service the District's total projected debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments - Impact on District Tax Rates."

Projected Average Annual Debt Service Requirements on the Bonds (2019 through 2033)	$2,702,399
$0.78 Tax Rate on 2018 Assessed Valuation as of January 1, 2018 of $368,293,762 @ 95% collections produces	$2,729,057
$0.74 Tax Rate Preliminary Valuation as of September 30, 2018 of $389,197,163 @ 95% collections produces	$2,736,056
Projected Maximum Annual Debt Service Requirements on the Bonds (2033)	$2,982,465
$0.86 Tax Rate on 2018 Assessed Valuation as of January 1, 2018 of $368,293,762 @ 95% collections produces	$3,008,960
$0.81 Tax Rate Preliminary Valuation as of September 30, 2018 of $389,197,163 @ 95% collections produces	$2,994,872

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy a continuing direct annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest outstanding tax bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS - 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 Payment." Under Texas law, the Board is also authorized to levy and collect a continuing direct annual ad valorem tax for the operation and maintenance of the District. See "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 a county and an appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Hays Central Appraisal District (the "Appraisal District" or "HCAD") has the responsibility for appraising property for all taxing units within Hays County, including the District. Such appraisal values are subject to review and change by the Hays County Appraisal Review Board (the "Appraisal Review Board"). The 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 Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; 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, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; 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 household goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development organizations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles.

Property owned by a disabled veteran or a veteran who died while on active duty has been granted an exemption up to $3,000 of assessed value. Partially exempt to between $5,000 and $12,000 of assessed value, depending upon the disability rating of the veteran, is property owned by a disabled veteran or spouse or certain children. House Bill 3613, enacted by the 81st Texas Legislature during its Regular Session, added Section 11.131 to the Property Tax Code. Section 1 of this law states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual un-employability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of person sixty-five (65) years or older and of certain disabled persons to the extent of $3,000 of appraised value or more. 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 Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty (20%) percent of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption but reserves the right to do so in the future.

Tax Abatement: Hays County may designate all or a part of the area within the District as a reinvestment zone. Thereafter, Hays County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvement or repairs to the property in conformity with a comprehensive plan. To date, none of the area within the District has been designated as a reinvestment zone and the District has not executed any abatement agreements.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the HCAD 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 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 HCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the HCAD at least once every three years. It is not known what frequency of reappraisal will be utilized by the HCAD 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 HCAD 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 HCAD 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 of review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the HCAD 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 value, 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. Each year the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due or when billed and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. In addition, if the District engages an attorney for the collection of delinquent taxes, the Board may impose a further penalty not to exceed 20% on all taxes, penalty and interest unpaid on July 1. 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. Additionally, an owner of a residential homestead property who is sixty-five (65) years of age or older is entitled by law to pay current taxes on a residential homestead property in installments or to defer the payment of taxes without penalty during the time of ownership.

District's Rights In The Event Of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceeding which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS - Tax Collection and Foreclosure Remedies."

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of a continuing direct annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District and based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds; the approving legal opinion of Bond Counsel, to a like effect, and to the effect that interest on the Bonds is excludable from gross income of the holders for federal tax purposes under existing law and the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustments for corporations under "TAX MATTERS".

Bond Counsel has reviewed the information appearing in this Official Statement under the caption "THE DISTRICT - General," "THE BONDS," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION", except "Compliance with Prior Undertakings", solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information, financials, or projections contained in this Official Statement nor has it conducted an investigation of the affairs of the District or the developers for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

A portion of the legal fees paid to the Special Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and therefore such fees are contingent upon the sale and delivery 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 subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their knowledge 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.

TAX MATTERS

Opinion

Bond Counsel will render its opinion that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not subject to the alternative minimum tax on individuals. For taxable years that began before January 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

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

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

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

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

Original Issue Discount

Certain of the Bonds (the "Discount Bonds") may be offered and sold to the public at an "original issue discount" ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of such Bonds. In general, the issue price of Discount Bonds is the first price at which a substantial amount of Discount Bonds of the same maturity are sold to the public (other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers).

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

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

Original Issue Premium

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

Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Collateral Tax Consequences Summary

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

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

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

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

State, Local, and Foreign Taxes

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

Changes in Law

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

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

Qualified Tax-Exempt Obligations for Financial Institutions

The District has designated the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended (the “Code”). “Qualified tax-exempt obligations” under Section 265(b)(3) of the Code affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under Section 265(b)(2) of the Code.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB") pursuant to its Electronic Municipal Market Access System ("EMMA"). This information will be available to securities brokers and others through the MSRB at www.emma.mrsb.org.

Annual Reports

The District will provide its audited financial statements to the MSRB annually. The District will provide this information within six months after the end of each fiscal year.

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"). If audited financial statements are not available by the required time, the District will provide un-audited financial statements by the required time and audited statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31, in each year commencing after 2018 unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB.

Notice of Certain Events

Notice of Occurrence of Certain Events, Whether or Not Material . . . The District will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, without regard to whether such event is 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 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 an obligated person. (Neither the Bonds nor the Bond Order make any provision for credit enhancement - unless a municipal bond insurance policy is obtained – or liquidity enhancement.)

Notice of Occurrence of Certain Events, If Material . . . The District also will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence 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 holders; (3) redemption 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.

Notice of Failure to Timely File . . . The District also will notify the MSRB through EMMA, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement. The District may amend its continuing disclosure agreement in the Bond Order to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, or business of the Developers, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Initial Purchasers from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

This is the District’s eighth issuance of Bonds. In the past five years, the District has complied in all material respects with continuing disclosure agreements made by it pursuant to SEC Rule 15c2-12.

[Remainder of page intentionally left blank]

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of SAMCO Capital Markets, Inc. (the "Financial Advisor"), which firm was employed beginning in 2003 as Financial Advisor to the District. The fees paid 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 information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

> "THE DISTRICT" - CMA Engineering, Inc. - relating to engineering matter - ("Engineer"), Dripping Springs Independent School District LH Belterra LLC and it's agent Ashlar Development LLC ("Developer"); "LANDOWNER AND DEVELOPER" – the Developer; "THE SYSTEM" – Engineer, Severn Trent Services ("General Manager & Operator"); "WATERWORKS AND SEWER SYSTEM COMBINATION UNLIMITED TAX AND REVENUE BONDS AUTHORIZED BUT UNISSUED" – Records of the District ("Records"), "FINANCIAL STATEMENT" – Hays Central Appraisal District; "ESTIMATED OVERLAPPING DEBT STATEMENT" – Municipal Advisory Council of Texas; "TAX DATA" – and "WATER AND SEWER OPERATIONS" – Audits, Records and Tax Assessor/Collector; "MANAGEMENT" – District Directors; "THE BONDS," "CONTINUING DISCLOSURE OF INFORMATION"; excluding the subheading, "Compliance with Prior Undertakings"; "TAXING PROCEDURES," "LEGAL MATTERS," and "TAX MATTERS" – Winstead PC; "EXTRATERRITORIAL JURISDICTION AND ANNEXATION" – the General Counsel – Andy Barrett & Associates, PLLC, and Matthew B. Kutac, 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, in particular, the information related to engineering matters included in the sections entitled "THE DISTRICT" and "THE SYSTEM," has been provided by CMA Engineering, Inc. 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 the Official Statement relating to the certified assessed valuation of property in the District and, in particular such information contained in the sections captioned "FINANCIAL STATEMENT" and "TAX DATA" has been provided by the Hays Central Appraisal District, in reliance upon its authority as experts in appraising and tax assessing.
>
> *Tax Assessor/Collector:* The information contained in this Official Statement relating to principal taxpayers and tax collection rates has been provided by Ms. Luanne Caraway as Hays County Tax Assessor/Collector in reliance upon her authority as an expert in the field of tax assessing and collecting.
>
> *Auditor:* The information contained in Appendix A is this Official Statement has been provided by Maxwell Locke and Ritter the District's current auditor.

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 Rule 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 below. 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 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.

Official Statement "Deemed Final"

For purposes of compliance with Rule 15c(2)-12 promulgated by the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an Official Statement with respect to the Bonds described herein "deemed final" by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

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 Rule 15c(2)-12.

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

/s/ Royce Wachsmann
President, Board of Directors
Hays County Water Control and
Improvement District No. 2

/s/ Sean McGillicuddy
Secretary, Board of Directors
Hays County Water Control and
Improvement District No. 2

(this page intentionally left blank)

PHOTOGRAPHS

The following photographs were taken in the District. The homes shown in the photographs are representative of the type of construction presently located within the District. 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." www.belterratexas.com**

(this page intentionally left blank)


BELTERRA


113

(this page intentionally left blank)

APPENDIX A
District Audited Financial Statements

The information contained in this appendix has been excerpted from the audited financial statements of Hays County Water Control & Improvement District No. 2 for the fiscal year ended September 2017. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

(this page intentionally left blank)

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

Financial Statements and Supplemental Information as of and for the Year Ended September 30, 2017 and Independent Auditors' Report

MAXWELL & LOCKE & RITTER

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TABLE OF CONTENTS

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS

COUNTY OF HAYS

I, Royce Wachsmann, President of the
(Name of Duly Authorized District Representative)

Hays County Water Control and Improvement District No. 2

hereby swear, or affirm, that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 1st day of February, 2018, its audit report for the year ended September 30, 2017, and that copies of the audit report have been filed in the District's office, located at c/o Winstead PC, 401 Congress Avenue, Suite 2100, Austin, Texas 78701.

The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements within Section 49.194 of the Texas Water Code and to the Texas Comptroller of Public Accounts in satisfaction of the annual filing requirements of Section 140.008 of the Texas Local Government Code.

Date: February 1, 2018. By: Royce Wall
(Signature of District Representative)

Royce Wachsmann, Board President
(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this 1st day of February, 2018.

JUDY W. McANGUS
Notary Public, State of Texas
Notary ID 606179-9
My Commission Exp. 10-10-2020

(SEAL)

Judy W McAngus
(Signature of Notary)

Judy W. McAngus
(Printed Name of Notary)

My Commission Expires On: 10-10-20
Notary Public in and for the State of Texas.

MAXWELL LOCKE & RITTER LLP
Accountants and Consultants
An Affiliate of CPAmerica International
tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com
Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701
Round Rock: 411 West Main Street, Suite 300
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Hays County Water Control and Improvement District No. 2:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Hays County Water Control and Improvement District No. 2 (the "District"), as of and for the year ended September 30, 2017, 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.

Auditors' 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 auditors' 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 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 supplemental information required by the Texas Commission on Environmental Quality (the "TCEQ") and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information required by the TCEQ listed in the table of contents 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information required by the TCEQ listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other supplementary information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Maxwell Locke + Ritter LLP

Austin, Texas
January 31, 2018

Management's Discussion and Analysis
For the Year Ended September 30, 2017

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, the management of Hays County Water Control and Improvement District No. 2 (the "District") offers the following narrative on the financial performance of the District for the year ended September 30, 2017. Please read it in connection with the District's financial statements that follow.

For purposes of GASB Statement No. 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.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the current fiscal year by approximately $567,000 (*net position*).
- As of the close of the current fiscal year, the District's governmental funds reported ending fund balance of approximately $4,652,000.
- The District issued no bonds during the year.
- The District has $26,685,000 of waterworks, sanitary sewer and drainage bonds and $32,070,000 of roadway system bonds authorized by the voters, but unissued by the District. See Note 10 in the *Notes to Basic Financial Statements* for more information on the District's plans related to roadway system bonds.

Overview of the Basic Financial Statements

The District's reporting is comprised of two parts:

- *Management's Discussion and Analysis* (this section)
- *Basic Financial Statements*
    - *Statement of Net Position and Governmental Funds Balance Sheet*
    - *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances*
    - *Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund*
    - *Notes to Basic Financial Statements*

Other supplementary information is also included.

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

The *Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund* presents a comparison statement between the District's amended, final budget to its actual results.

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

Schedules required by the Texas Commission on Environmental Quality are presented immediately following the *Notes to Basic Financial Statements*.

Comparative Financial Statements

Statement of Net Position

	Governmental Activities		
	2017	2016	% Change
Current assets	$ 5,073,998	$ 4,507,011	13%
Capital and non-current assets	14,739,641	14,593,807	1%
Total assets	19,813,639	19,100,818	4%
Deferred outflows of resources	199,497	211,966	(6%)
Current liabilities	1,177,613	1,078,063	9%
Long-term liabilities	18,268,049	19,008,049	(4%)
Total liabilities	19,445,662	20,086,112	(3%)
Net investment in capital assets	(4,268,408)	(4,554,334)	6%
Restricted	1,064,064	1,039,836	2%
Unrestricted	3,771,818	2,741,170	38%
Total net position	$ 567,474	$ (773,328)	173%

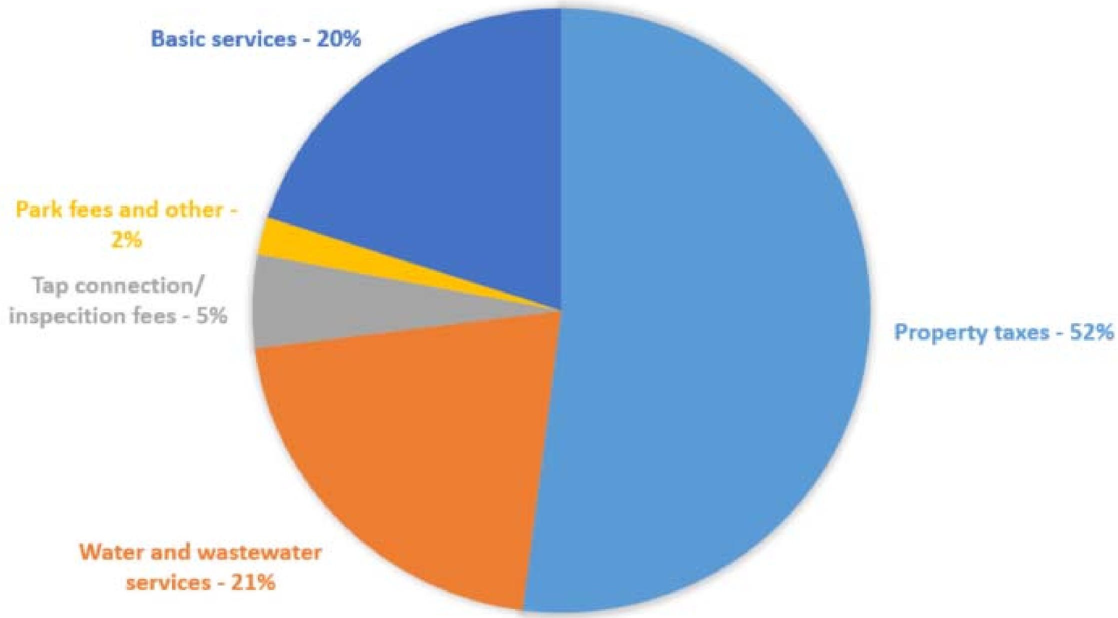
The District's total assets were approximately $19.8 million as of September 30, 2017. Of this amount, approximately $6.0 million is accounted for by capital assets and approximately $8.7 million is accounted for by intangible assets. The District had outstanding liabilities of approximately $19.4 million of which approximately $0.4 million is payable to the developer and approximately $18.6 million is included in bonds payable.

Statement of Activities

	Governmental Activities		
	2017	2016	% Change
Property taxes	$ 2,197,278	$ 1,699,437	29%
Basic services	828,161	712,473	16%
Water and wastewater service	873,764	665,142	31%
Tap connection/inspection fees	212,432	212,762	(<1%)
Park fees	66,750	95,250	(30%)
Other	10,243	812,174	(99%)
Penalties and interest	3,376	3,230	5%
Total revenue	4,192,004	4,200,468	(<1%)
Repair and maintenance	614,842	611,932	<1%
Bulk water purchase	237,016	234,722	1%
WTCPUA fees	261,461	206,970	26%
Garbage services	157,186	130,139	21%
Legal fees	146,348	105,746	38%
Management services	281,750	90,832	210%
Engineering fees	44,519	89,007	(50%)
Tap inspection fees	51,080	82,792	(38%)
Other	95,450	94,140	1%
Bond issuance costs	-	557,558	(100%)
Debt service	561,000	493,208	14%
Amortization	303,342	303,341	<1%
Depreciation	97,108	78,683	23%
Total expenses	2,851,202	3,079,070	(7%)
Change in net position	1,340,802	1,121,398	20%
Beginning net position	(773,328)	(1,894,726)	141%
Ending net position	$ 567,474	$ (773,328)	173%

Total revenues were approximately $4.2 million for the fiscal year ended September 30, 2017, which is a <1% decrease from the prior year. Tap connection and inspection fees provided approximately $212,000, property taxes provided approximately $2,197,000, and water and wastewater service provided approximately $874,000. Expenses decreased by approximately $228,000 to a total of approximately $2.9 million for the fiscal year ended September 30, 2017, with much of the decrease attributable to the bond issuance costs in the prior year, with no new bond issuance in the current year. Net position increased approximately $1.3 million for the year ended September 30, 2017.

Sources of Revenues



Analysis of Governmental Funds

	2017	2016
Cash and temporary investments	$ 4,613,754	$ 4,270,179
Receivables	323,225	236,832
Due from other funds	60,212	5,245
Due from Hays County WCID No. 1	46,161	-
Prepaid costs	90,858	-
Total assets	$ 5,134,210	$ 4,512,256
Accounts payable	$ 229,461	$ 296,627
Customer deposits	163,658	133,748
Due to other funds	60,212	5,245
Due to Hays County WCID No. 1	-	56,651
Unearned revenue	-	35,400
Total liabilities	453,331	527,671
Deferred inflows of resources	28,491	9,175
Nonspendable fund balance	37,409	-
Restricted fund balances	1,094,945	1,451,285
Unassigned fund balance	3,520,034	2,524,125
Total fund balances	4,652,388	3,975,410
Total liabilities, deferred inflows of resources, and fund balances	$ 5,134,210	$ 4,512,256

The *General Fund* pays for daily operating expenditures. The General Fund's fund balance increased by approximately $1,033,000 during the year resulting in an ending fund balance of approximately $3,557,000 as of September 30, 2017. When comparing actual to budget, actual revenues were higher than budget by approximately $332,000 due to more tap connection/inspection fees, more park fees, more basic service fees, higher property tax collections, and higher water and wastewater service revenue. Actual expenditures were lower than budget by approximately $359,000 primarily due less capital outlay than budgeted during the year.

The *Debt Service Fund* remitted bond principal of $510,000 and interest of approximately $548,000. More detailed information about the District's debt is presented in the *Notes to Basic Financial Statements*.

The *Capital Projects Fund* purchases the District's infrastructure. The Capital Projects Fund had capital outlay expenditures of $370,000 for the year ended September 30, 2017.

Capital Assets

	2017	2016
Water and wastewater facilities	$ 5,535,777	$ 5,165,777
Park improvements	792,288	631,521
Construction in progress	17,649	-
Total	6,345,714	5,797,298
Accumulated depreciation	(317,760)	(220,652)
Total	$ 6,027,954	$ 5,576,646

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

Intangible Assets

	2017	2016
Right to receive wastewater service	$ 10,129,486	$ 10,129,486
Accumulated amortization	(1,454,035)	(1,150,693)
Total	$ 8,675,451	$ 8,978,793

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

Long-Term Debt Activity

	2017	2016
Series 2010 Bonds	$ 670,000	$ 810,000
Series 2013 Bonds	3,050,000	3,170,000
Series 2014 Bonds	5,250,000	5,250,000
Series 2016R Bonds	3,835,000	3,870,000
Series 2016 Bonds	5,785,000	6,000,000
Developer advances	418,049	418,049
Total	$ 19,008,049	$ 19,518,049

At September 30, 2017, the District owed approximately $418,000 to the developer for advances used to fund construction. At September 30, 2017, the District owed approximately $18.6 million to bond holders. At September 30, 2017, the District has $26,685,000 of waterworks, sanitary sewer and drainage unlimited tax bonds and $32,070,000 of roadway system unlimited tax bonds that were authorized by the District, but unissued.

Currently Known Facts, Decisions, and Conditions

For fiscal year 2018, which is the tax year 2017, the tax rate has been set at $0.8750 per $100 of assessed valuation of which $0.2222 is approved for maintenance and operations and $0.6528 is approved for debt service to provide for payment of principal and interest associated with outstanding bonds. The adopted budget for 2018 projects an increase in fund balance of the General Fund of approximately $4,000. When compared to the 2017 amended budget, revenues are expected to decrease by approximately $160,000 primarily due to a decrease in the maintenance and operations tax rate for tax year 2017. Expenditures are expected to increase by approximately $178,000 primarily due to an increase in management services expenditures.

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 c/o Winstead PC, 401 Congress Avenue, Suite 2100, Austin, Texas 78701.

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2017

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS (NOTE 2)	STATEMENT OF NET POSTION
ASSETS:						
Cash and cash equivalents	$ 3,524,634	1,089,120	-	4,613,754	-	4,613,754
Receivables:						
Property taxes	14,878	13,613	-	28,491	-	28,491
Services	248,267	-	-	248,267	-	248,267
Due from other funds	53,449	6,763	-	60,212	(60,212)	-
Due from Hays County WCID No. 1	46,161	-	-	46,161	-	46,161
Other receivables	46,467	-	-	46,467	-	46,467
Prepaids	37,409	-	53,449	90,858	-	90,858
Bond insurance costs	-	-	-	-	36,236	36,236
Intangible assets (net of accumulated amortization)-						
Right to receive wastewater service	-	-	-	-	8,675,451	8,675,451
Capital assets (net of accumulated depreciation):						
Water and wastewater facilities	-	-	-	-	5,454,907	5,454,907
Park improvements	-	-	-	-	555,398	555,398
Construction in progress	-	-	-	-	17,649	17,649
Total assets	$ 3,971,265	1,109,496	53,449	5,134,210	14,679,429	19,813,639
DEFERRED OUTFLOWS OF RESOURCES-						
Deferred charges on bond refundings	-	-	-	-	199,497	199,497
LIABILITIES:						
Accounts payable	$ 228,523	938	-	229,461	-	229,461
Refundable deposits	163,658	-	-	163,658	-	163,658
Due to other funds	6,763	-	53,449	60,212	(60,212)	-
Bond interest payable	-	-	-	-	44,494	44,494
Long-term liabilities:						
Due within one year	-	-	-	-	740,000	740,000
Due after one year	-	-	-	-	17,850,000	17,850,000
Developer advances	-	-	-	-	418,049	418,049
Total liabilities	398,944	938	53,449	453,331	18,992,331	19,445,662
DEFERRED INFLOWS OF RESOURCES-						
Deferred revenue - property taxes	14,878	13,613	-	28,491	(28,491)	-
FUND BALANCES/ NET POSITION:						
Fund balances:						
Nonspendable-						
Prepaids	37,409	-	-	37,409	(37,409)	-
Restricted for:						
Debt service	-	1,094,945	-	1,094,945	(1,094,945)	-
Capital projects	-	-	-	-	-	-
Unassigned	3,520,034	-	-	3,520,034	(3,520,034)	-
Total fund balances	3,557,443	1,094,945	-	4,652,388	(4,652,388)	-
Total liabilities, deferred inflows of resources, and fund balances	$ 3,971,265	1,109,496	53,449	5,134,210		
Net position:						
Net investment in capital assets					(4,268,408)	(4,268,408)
Restricted for debt service					1,064,064	1,064,064
Unrestricted					3,771,818	3,771,818
Total net position					$ 567,474	$ 567,474

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

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED SEPTEMBER 30, 2017

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS (NOTE 2)	STATEMENT OF ACTIVITIES
EXPENDITURES/EXPENSES:						
Service operations:						
Repair and maintenance	$ 614,842	-	-	614,842	-	614,842
Bulk water purchases	237,016	-	-	237,016	-	237,016
WTCPUA base fees	211,564	-	-	211,564	-	211,564
Garbage services	157,186	-	-	157,186	-	157,186
Legal fees	146,348	-	-	146,348	-	146,348
Management services	281,750	-	-	281,750	-	281,750
Engineering fees	44,519	-	-	44,519	-	44,519
WTCPUA reservation fees	49,897	-	-	49,897	-	49,897
Tap inspection fees	51,080	-	-	51,080	-	51,080
Directors' fees	18,752	-	-	18,752	-	18,752
Audit fees	16,500	-	-	16,500	-	16,500
Insurance	7,400	-	-	7,400	-	7,400
Financial advisor fees	2,500	-	-	2,500	-	2,500
Other	38,067	12,112	119	50,298	-	50,298
Debt service:						
Principal	-	510,000	-	510,000	(510,000)	-
Interest and fiscal agent fees	-	547,642	-	547,642	13,458	561,100
Capital outlay	178,416	-	370,000	548,416	(548,416)	-
Amortization	-	-	-	-	303,342	303,342
Depreciation	-	-	-	-	97,108	97,108
Total expenditures/expenses	2,055,837	1,069,754	370,119	3,495,710	(644,508)	2,851,202
REVENUES:						
Program revenues:						
Basic services	828,161	-	-	828,161	-	828,161
Water and wastewater service	873,764	-	-	873,764	-	873,764
Tap connection/inspection fees	212,432	-	-	212,432	-	212,432
Park fees	66,750	-	-	66,750	-	66,750
Total program revenues	1,981,107	-	-	1,981,107	-	1,981,107
Net program expenses						(870,095)
General revenues:						
Property taxes	1,104,911	1,073,051	-	2,177,962	19,316	2,197,278
Interest income and other	1,424	8,608	211	10,243	-	10,243
Penalties and interest on tax accounts	1,713	1,663	-	3,376	-	3,376
Total general revenues	1,108,048	1,083,322	211	2,191,581	19,316	2,210,897
Total revenues	3,089,155	1,083,322	211	4,172,688	19,316	4,192,004
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,033,318	13,568	(369,908)	676,978	(676,978)	-
Change in net position					1,340,802	1,340,802
FUND BALANCES/ NET POSITION:						
Beginning of year	2,524,125	1,081,377	369,908	3,975,410	(4,748,738)	(773,328)
End of year	$ 3,557,443	1,094,945	-	4,652,388	(4,084,914)	567,474

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

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2017

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance**
REVENUES:				
Property taxes	$ 1,078,000	1,092,872	1,104,911	12,039
Basic services	760,656	760,656	828,161	67,505
Water and wastewater service	411,676	691,540	873,764	182,224
Tap connection/inspection fees	133,200	155,000	212,432	57,432
Park fees	54,000	54,000	66,750	12,750
Penalties and interest on tax accounts	500	1,400	1,713	313
Interest income and other	1,425	1,425	1,424	(1)
Total revenues	2,439,457	2,756,893	3,089,155	332,262
EXPENDITURES:				
Service operations:				
Repair and maintenance	760,576	774,404	614,842	159,562
Bulk water purchases	163,419	187,734	237,016	(49,282)
WTCPUA base fees	213,829	209,309	211,564	(2,255)
Garbage services	166,685	166,685	157,186	9,499
Legal fees	120,400	126,400	146,348	(19,948)
Management services	93,600	158,803	281,750	(122,947)
Engineering fees	75,000	70,000	44,519	25,481
WTCPUA reservation fees	49,621	49,621	49,897	(276)
Tap inspection fees	83,200	49,939	51,080	(1,141)
Directors' fees	39,700	39,700	18,752	20,948
Audit fees	15,000	16,500	16,500	-
Insurance	8,000	8,000	7,400	600
Financial advisor fees	2,500	2,500	2,500	-
Other	26,589	30,693	38,067	(7,374)
Capital outlay	585,000	525,000	178,416	346,584
Total expenditures	2,403,119	2,415,288	2,055,837	359,451
EXCESS OF REVENUES OVER EXPENDITURES	36,338	341,605	1,033,318	691,713
FUND BALANCE:				
Beginning of year	2,524,125	2,524,125	2,524,125	-
End of year	$ 2,560,463	2,865,730	3,557,443	691,713

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hays County Water Control and Improvement District No. 2 (the "District") was created in January 2001 by the Hays County Commissioners Court and operates pursuant to Chapter 51 of the Texas Water Code. It is a political subdivision of the State of Texas and is operated by an elected Board of Directors (the "Board"). The 77th Legislature confirmed the creation of the District and further granted the District all powers in Chapter 49, 51, and 54 of the Texas Water Code. The District provides water, sewer, and drainage facilities and services within the District.

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, which has been elected by District residents or appointed by the Board. The District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB"), 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 included in the District's reporting entity.

Government-Wide and Fund Financial Statements

For purposes of GASB Statement No. 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 government-wide financial statements report information on all of the activities of the District. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the expenses are offset by program revenues. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are 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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Major revenue sources considered susceptible to accrual include interest income. No accrual for property taxes to be collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred inflows of resources.

The District reports the following major governmental funds:

> The General Fund includes financial resources used for general operations. It is a budgeted fund, and any unassigned fund balance is considered resources available for current operations.
>
> The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due.
>
> The Capital Projects Fund is used to account for financial resources restricted for authorized construction and other capital asset acquisitions.

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device for the General Fund. Formal budgetary integration is not employed for the Debt Service Fund or the Capital Projects Fund. The budget is proposed by the District Manager for the fiscal year commencing the following October 1, and is adopted on the modified accrual basis, which is consistent with generally accepted accounting principles.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Cash and cash equivalents **-** The District's cash and cash equivalents are considered to be cash-on-hand and short-term investments with original maturities of three months or less from the date of acquisition.

Investments **-** The District is entitled to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, certain Federal agency securities and other types of municipal bonds, fully collateralized repurchase agreements, commercial paper and local government investment pools. The District's investment policies and types of investments are governed by Section 2256 of the Government Code ("Public Funds Investment Act"). The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policies. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Prepaid Items **-** Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid assets in both the government-wide and fund financial statements. Prepaid assets are charged to expenditures when consumed.

Accounts Receivable **-** The District provides for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. As of September 30, 2017, there was no allowance for uncollectible accounts.

Intangible Assets **-** Intangible assets, which consist of the right to receive wastewater service, are reported in the governmental activities columns in the government-wide financial statements. Intangible assets are defined by GASB Statement No. 51 as assets which lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Such assets are recorded at historical cost if purchased or estimated fair value at the date of donation if donated. Intangible assets are amortized using the straight line method over the estimated life of the assets, which in this case is estimated to be 40 years based on the initial term of the Joint Facilities Agreement entered into between the District and Hays County Water Control and Improvement District No. 1 ("Hays County WCID No. 1").

Capital Assets **-** Capital assets, which consist of water and wastewater facilities, park improvements, and construction in progress, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with useful life of at least two years and an initial, individual cost of at least $10,000. Such assets are recorded at estimated acquisition cost if purchased or estimated acquisition value at the date of donation if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Capital assets (other than construction in progress) are depreciated using the straight line method over the following estimated useful lives: water and wastewater facilities - forty years; park improvements **-** three to twenty-five years.

Long-Term Debt **-** In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts, as well as bond insurance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond insurance costs are reported as assets and amortized over the term of the related debt.

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 received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, including bond insurance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in the period incurred.

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

Deferred Outflows and Inflows of Resources **-** The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 8 for additional information on deferred outflows of resources.

Fund Equity **-** The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 11 for additional information on those fund balance classifications.

Fair Value Measurements - The District complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access

- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity

- Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities

- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)

- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Use of Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, 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.

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended September 30, 2021.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds total fund balances	$ 4,652,388
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets, net of accumulated depreciation	6,027,954
Intangible assets, net of accumulated amortization	8,675,451
Bond insurance costs	36,236
Deferred tax revenue is not available to pay for current-period expenditures and, therefore, is deferred in the funds.	28,491
The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable	(18,590,000)
Less: Deferred charges on bond refundings	199,497
Bond interest payable	(44,494)
Developer advances	(418,049)
Total net position	$ 567,474

Amounts reported for governmental activities in the statement of activities are different because:

Excess of revenues over expenditures	$ 676,978
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.	
Capital outlay	548,416
Depreciation expense	(97,108)
Amortization expense	(303,342)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred tax revenue	19,316
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Repayment of bond principal	510,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in bond interest payable	1,143
Amortization of deferred charge on refundings	(12,469)
Amortization of bond insurance costs	(2,132)
Change in net position	$ 1,340,802

3. CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

The District's deposits are required to be secured in the manner provided by law for the security of the funds. At September 30, 2017, such deposits, consisting of bank deposits and money market mutual funds, were entirely covered by Federal Deposit Insurance Corporation ("FDIC") insurance or secured by collateral pledged by the depository.

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy. The District's deposits and investments are invested pursuant to the investment policy, which is approved annually by the Board. The primary objectives of the District's investment strategy, in order of priority, are safety, liquidity, and yield.

The District is entitled to invest in obligations of the United States, the State of Texas and their agencies or any state, county, city and any other political subdivisions of any state rated by a nationally recognized investment rating firm with a rating not less than A or its equivalent, certificates of deposit of state or national banks or savings and loan associations within the State, prime domestic bankers' acceptances, commercial paper with a stated maturity of 270 days or less from the date of its issuance, fully collateralized repurchase agreements, no-load money market mutual funds regulated by the United States Securities and Exchange Commission, and eligible public funds investment pools.

There were no investments held at September 30, 2017.

4. PROPERTY TAXES

The Texas Water Code authorizes the District to levy a tax each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located within its boundaries. Assessed values are established annually by the Hays Central Appraisal District. District property tax revenues are recognized when levied to the extent that they are collected and become available to finance expenditures of the District in the current fiscal period. The balance is reported as deferred revenue. Taxes receivable are due January 1 and are delinquent if received after January 31 and are subject to penalty and interest charges.

In September 2016, the District levied a tax rate of $0.875 per $100 of assessed valuation to finance the operating expenditures and debt service requirements of the District. The maintenance tax rate and the debt service tax rate were $0.4439 and $0.4311, respectively. The total 2016 tax levy was $2,180,639 based on a taxable valuation of $245,300,522.

5. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." The composition of interfund balances as of September 30, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	$ 53,449
Debt Service	General	6,763
Total		$ 60,212

6. INTANGIBLE ASSETS

Intangible asset activity for the year ended September 30, 2017, was as follows:

	Balance September 30, 2016	Additions	Retirements and Transfers	Balance September 30, 2017
Intangible assets-				
Right to receive				
wastewater service	$ 10,129,486	-	-	10,129,486
Total intangible assets being amortized	10,129,486	-	-	10,129,486
Less accumulated amortization for-				
Right to receive wastewater service	(1,150,693)	(303,342)	-	(1,454,035)
Intangible assets, net	$ 8,978,793	(303,342)	-	8,675,451

7. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2017, was as follows:

	Balance September 30, 2016	Additions	Retirements and Transfers	Balance September 30, 2017
Capital assets, not being depreciated-				
Construction in progress	$ -	17,649	-	17,649
Capital assets being depreciated:				
Park improvements	631,521	160,767	-	792,288
Water and wastewater facilities	5,165,777	370,000	-	5,535,777
Total capital assets being depreciated	5,797,298	530,767	-	6,328,065
Less accumulated depreciation for:				
Park improvements	(184,071)	(52,819)	-	(236,890)
Water and wastewater facilities	(36,581)	(44,289)	-	(80,870)
Total accumulated depreciation	(220,652)	(97,108)	-	(317,760)
Total capital assets being depreciated, net	5,576,646	433,659	-	6,010,305
Capital assets, net	$ 5,576,646	451,308	-	6,027,954

8. DEFERRED CHARGES ON BOND REFUNDINGS

The following is a summary of changes in deferred charges on bond refundings for the year ended September 30, 2017:

	Beginning Balance	Additions	Retirements	Ending Balance
Deferred charges on bond refundings	$ 211,966	-	(12,469)	199,497

9. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended September 30, 2017:

	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017
Unlimited Tax Bonds, Series 2010	$ 810,000	-	(140,000)	670,000
Unlimited Tax Bonds, Series 2013	3,170,000	-	(120,000)	3,050,000
Unlimited Tax Bonds, Series 2014	5,250,000	-	-	5,250,000
Unlimited Tax Bonds, Series 2016R	3,870,000	-	(35,000)	3,835,000
Unlimited Tax Bonds, Series 2016	6,000,000	-	(215,000)	5,785,000
	$ 19,100,000	-	(510,000)	18,590,000

Long-term debt at September 30, 2017 was comprised of the following individual issue:

Series	Description	Matures Through	Interest Rate %	Balance September 30, 2017	Due Within One Year
2010	Unlimited Tax Bonds	2021	3.0% - 5.0%	$ 670,000	$ 150,000
2013	Unlimited Tax Bonds	2033	2.6% - 3.4%	3,050,000	125,000
2014	Unlimited Tax Bonds	2034	2.0% - 3.4%	5,250,000	205,000
2016R	Unlimited Tax Refunding Bonds	2033	2.6% - 3.2%	3,835,000	35,000
2016	Unlimited Tax Bonds	2034	2.0% - 2.8%	5,785,000	225,000
Total				$ 18,590,000	$ 740,000

Debt service requirements to maturity for the District's bonds are as follows:

Fiscal Year	Principal	Interest	Total
2018	$ 740,000	533,928	1,273,928
2019	785,000	515,323	1,300,323
2020	825,000	495,379	1,320,379
2021	865,000	474,129	1,339,129
2022	910,000	451,365	1,361,365
2023 - 2027	5,295,000	1,875,012	7,170,012
2028 - 2032	6,685,000	1,086,779	7,771,779
2033 - 2034	2,485,000	118,635	2,603,635
Total	$ 18,590,000	5,550,551	24,140,551

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks.

At September 30, 2017, there were $26,685,000 of waterworks, sanitary sewer and drainage bonds authorized by voters of the District but unissued. At September 30, 2017, there were $32,070,000 of roadway system bonds authorized by voters of the District, but unissued. See Note 10 for further discussion regarding the estimated amount of roadway system bonds the District will issue.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Water Supply Source **-** The District has contractual commitments with the West Travis County Public Utility Agency (the "WTCPUA") and the Lower Colorado River Authority (the "LCRA") to provide capacity for up to 1,146 Living Unit Equivalents ("LUEs"). The District executed a Firm Water Contract with the LCRA dated June 6, 2014, whereby the District obtained rights to 680.35 acre-feet of raw or untreated water per annum. Raw water is treated, delivered, and supplied to the District by the WTCPUA pursuant to a Water Services Agreement between the LCRA and the District dated August 30, 2010, as amended. The Water Services Agreement was assigned to the WTCPUA as a successor and assignee of LCRA commensurate with the LCRA's sale of certain assets to the WTCPUA. Under the Water Services Agreement, as amended, the WTCPUA is obligated to provide the District with treated water capacity of up to 1,166,170 gallons per day for up to 1,146 LUE's.

Wastewater Treatment Facilities **-** The District and Hays County WCID No. 1 have entered into a Joint Facilities Agreement dated June 9, 2005, as subsequently amended. Pursuant to the Joint Facilities Agreement, the District has paid Hays County WCID No. 1 certain wastewater capacity fees in exchange for the right to receive wastewater collection and treatment services. In addition, the District has paid a proportionate share of construction costs related to the wastewater treatment plant expansion; these construction costs entitle the District to receive wastewater collection and treatment services but do not accord the District ownership of the wastewater treatment plant. Hays County WCID No. 1 owns title to the wastewater treatment plant. At September 30, 2017, Hays County WCID No. 1 owes the District $46,161 under the Agreement.

District Development and Developer Reimbursement **-** The District is currently under development and the construction of facilities is being paid by the developers of the District. The Board of the District authorized the funding of the projects and the reimbursement of the developer for the cost of the projects out of bond proceeds when the bonds are authorized and issued. The bond proceeds will be used to purchase all of the capital assets within the District including related infrastructure. The estimate of total bonds needed to purchase the waterworks, sanitary sewer and drainage infrastructure is $46,185,000. The total bonds needed to purchase the roadways were initially estimated at $32,070,000. Due to changes in law since such the bond authorization, the District does not anticipate issuance of roadway system bonds in the full amount authorized. The District anticipates that issuance of roadway system bonds will be limited to reimbursement for design and construction of roads meeting the criteria of Hays County for a "thoroughfare, arterial or collector road." The District currently estimates that the District will issue approximately $4,000,000 to $7,000,000 in roadway system bonds, and is in the process of identifying those roads that will be reimbursable.

As of September 30, 2017, developer commitments under construction contracts (complete and in-progress) totaled approximately $6,743,000. The District has outstanding liabilities of $418,049 of developer advances as of September 30, 2017 which relates to the contributed intangible assets associated with the wastewater treatment plant and the Agreement discussed above. The developer advance was repaid to the developer through bond proceeds on November 30, 2017. The remaining amounts are expected to be repaid to the developer from future bond proceeds.

11. FUND BALANCES

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable **-** Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted **-** Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed **-** Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned **-** For the General Fund, the Board may appropriate amounts that are to be used for a specific purpose. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned **-** Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balances is included in the Governmental Funds Balance Sheet on page 11. Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has the authority to assign fund balance for a specific purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

12. RISK MANAGEMENT

The District's risk management program includes coverage through third party insurance providers for director and officer liability, public official position liability, and general liability. Losses in excess of the various deductible levels are covered through traditional indemnity coverage. No claims were filed during the current period.

13. SUBSEQUENT EVENT

On November 30, 2017, the District issued $9,500,000 of Unlimited Tax Bonds, Series 2017, with interest rates ranging from 2.0% to 3.25% and principal maturities through September 2037. Proceeds from the bonds were used to reimburse the District's developer for construction and engineering costs, pay interest on funds advanced by the developer on behalf of the District, and pay certain other costs related to the issuance of bonds.

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

INDEX OF SUPPLEMENTAL SCHEDULES REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
YEAR ENDED SEPTEMBER 30, 2017

SCHEDULE INCLUDED			
YES	NO		
X		TSI-0	Notes Required by the Water District Accounting Manual
X		TSI-1	Schedule of Services and Rates
X		TSI-2	Schedule of General Fund Expenditures
	X	TSI-3	Schedule of Temporary Investments
X		TSI-4	Analysis of Taxes Levied and Receivable
X		TSI-5	Long-Term Debt Service Requirements by Years
X		TSI-6	Analysis of Changes in Long-Term Bonded Debt
X		TSI-7	Comparative Schedule of Revenues and Expenditures - General Fund - Five Years Ended September 30, 2017
X		TSI-8	Board Members, Key Personnel and Consultants

TSI-0 NOTES REQUIRED BY THE WATER DISTRICT ACCOUNTING MANUAL
YEAR ENDED SEPTEMBER 30, 2017

The notes which follow are not necessarily required for fair presentation of the audited financial statements of the District which are contained in the preceding section of this report. They are presented in conformity with requirements of the Texas Commission on Environmental Quality to assure disclosure of specifically required facts.

(A) Creation of District

See Note 1 to basic financial statements.

(B) Contingent Liabilities

See Note 10 to basic financial statements.

(C) Pension Coverage

Not applicable.

(D) Pledge of Revenues

See Note 9 to basic financial statements.

(E) Compliance with Debt Service Requirements

See Note 9 to basic financial statements.

(F) Redemption of Bonds

See Note 9 to basic financial statements.

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-1 SCHEDULE OF SERVICES AND RATES
YEAR ENDED SEPTEMBER 30, 2017

1. Services Provided by the District:

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

2. Retail Service Providers:

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

	Minimum Charge	Minimum Usage	Flat RateY/N	Rate per 1,000 Gallons Over Minimum Use	Usage Levels
WATER	$ 35.00	-	Y	$ 2.30	0 to 2,000
				3.85	2,001 to 5,000
				4.24	5,001 to 10,000
				4.88	10,001 to 20,000
				5.86	20,001 to 25,000
				7.03	25,001 to 30,000
				10.55	30,001 to 40,000
				15.83	40,001 and above
WASTEWATER	$ 35.00	-	Y	$ 3.63	Per 1,000 above minimum
SURCHARGE	$ None			$	

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

Total charges per 10,000 gallons usage: Water: $ 72.35 Wastewater: $ 71.30

(continued)

TSI-1 SCHEDULE OF SERVICES AND RATES (continued)
YEAR ENDED SEPTEMBER 30, 2017

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	-
<=¾”	790	789	x 1.0	789
1”	2	2	x 2.5	5
1 ½”	-	-	x 5.0	-
2”	1	1	x 8.0	8
3”	2	2	x 15.0	30
4”	-	-	x 25.0	-
6”	-	-	x 50.0	-
8”	-	-	x 80.0	-
10”	-	-	x 115.0	-
Total Water	795	794		832
Total Wastewater	789	789	x 1.0	789

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

Gallons pumped into system:	121,715,000	Water Accountability Ratio: (Gallons billed/Gallons pumped)
Gallons billed to customers:	111,308,000	91.4%

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

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

If yes, Date of the most recent Commission Order: N/A

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

If yes, Date of the most recent Commission Order: N/A

(continued)

TSI-1 SCHEDULE OF SERVICES AND RATES (continued)
YEAR ENDED SEPTEMBER 30, 2017

5. Location of District:

County(ies) in which district is located:	Hays		
Is the District located entirely within one county?	☒ Yes	☐ No	
Is the District located within a city?	☐ Entirely	☐ Partly	☒ Not at all
City(ies) in which District is located:	N/A		
Is the District located within a city's extra territorial jurisdiction (ETJ?)	☒ Entirely	☐ Partly	☐ Not at all
ETJ's in which district is located:	Dripping Springs		
Are Board members appointed by an office outside the District?	☐ Yes	☒ No	
If yes, by whom?	N/A		

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-2 SCHEDULE OF GENERAL FUND EXPENDITURES
YEAR ENDED SEPTEMBER 30, 2017

Personnel expenditures (including benefits)	$	-
Professional fees:		
Auditing		16,500
Legal		146,348
Engineering		44,519
Financial advisor		2,500
Purchased services for resale-		
Bulk water purchases		237,016
Contracted services:		
General manager		281,750
Appraisal district		7,929
Tax collector		138
Other contracted services		-
Utilities		21,663
Repairs and maintenance		614,842
Administrative expenditures:		
Directors' fees		18,752
Office supplies		-
Insurance		7,400
Other administrative expenses		50
Capital outlay:		
Capitalized assets		178,416
Expenditures not capitalized		-
Tap connection expenditures		51,080
Solid waste disposal		157,186
Fire fighting		-
Parks and recreation		-
Other expenditures		269,748
TOTAL EXPENDITURES	$	2,055,837

Number of persons employed by the District: 0 Full-Time 5 Part-Time
(Does not include independent contractors or consultants)

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-4 ANALYSIS OF TAXES LEVIED AND RECEIVABLE
YEAR ENDED SEPTEMBER 30, 2017

	Maintenance Taxes	Debt Service Taxes
TAXES RECEIVABLE, SEPTEMBER 30, 2016	$ 5,079	$ 4,096
2016 Tax Roll	1,106,269	1,074,370
Adjustments	8,441	8,198
Total to be accounted for	1,119,789	1,086,664
Tax collections:		
Current year	1,104,901	1,073,040
Prior years	10	11
Total collections	1,104,911	1,073,051
TAXES RECEIVABLE, SEPTEMBER 30, 2017	$ 14,878	$ 13,613
TAXES RECEIVABLE, BY YEARS		
2016	$ 9,811	$ 9,528
2015	1,399	1,165
2014	1,029	1,372
2013	1,260	923
2012 and prior	1,379	625
TAXES RECEIVABLE, SEPTEMBER 30, 2017	$ 14,878	$ 13,613

	2016	2015	2014	2013
PROPERTY VALUATIONS-				
Land improvements and personal property	$ 245,300,522	$ 186,073,538	$ 144,144,687	$ 106,033,629
TAX RATES PER $100 VALUATION:				
Maintenance tax rates	0.4439	0.4775	0.3750	0.5050
Debt service tax rates	0.4311	0.3975	0.5000	0.3700
TOTAL TAX RATES PER $100 VALUATION	$ 0.8750	$ 0.8750	$ 0.8750	$ 0.8750
ORIGINAL TAX LEVY	$ 2,180,639 *	$ 1,699,479	$ 1,319,548	$ 754,027
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	99.1% *	99.8%	99.8% *	99.7%

* Includes rollback adjustments.

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2017

	UNLIMITED TAX BONDS SERIES 2010			UNLIMITED TAX BONDS SERIES 2013			UNLIMITED TAX BONDS SERIES 2014		
DUE DURING FISCAL YEARS ENDING 9/30	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total
2018	$ 150,000	27,195	177,195	125,000	117,043	242,043	205,000	155,636	360,636
2019	160,000	21,345	181,345	135,000	113,793	248,793	215,000	151,536	366,536
2020	175,000	14,945	189,945	140,000	110,283	250,283	225,000	147,236	372,236
2021	185,000	7,770	192,770	145,000	106,643	251,643	235,000	142,736	377,736
2022	-	-	-	155,000	102,583	257,583	245,000	138,036	383,036
2023	-	-	-	165,000	97,933	262,933	260,000	131,910	391,910
2024	-	-	-	170,000	92,653	262,653	270,000	124,110	394,110
2025	-	-	-	180,000	86,873	266,873	285,000	116,010	401,010
2026	-	-	-	190,000	80,033	270,033	300,000	107,460	407,460
2027	-	-	-	200,000	72,813	272,813	315,000	98,460	413,460
2028	-	-	-	210,000	64,563	274,563	330,000	89,010	419,010
2029	-	-	-	220,000	55,900	275,900	350,000	79,110	429,110
2030	-	-	-	235,000	46,220	281,220	365,000	68,260	433,260
2031	-	-	-	245,000	35,880	280,880	385,000	56,580	441,580
2032	-	-	-	260,000	24,610	284,610	400,000	43,876	443,876
2033	-	-	-	275,000	12650.00	287,650	420,000	30,277	450,277
2034	-	-	-	-	-	-	445,000	23,362	468,362
	$ 670,000	71,255	741,255	3,050,000	1,220,473	4,270,473	5,250,000	1,703,605	6,953,605

(continued)

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS (continued)
SEPTEMBER 30, 2017

	UNLIMITED TAX BONDS SERIES 2016R			UNLIMITED TAX BONDS SERIES 2016			ANNUAL REQUIREMENTS FOR ALL SERIES		
DUE DURING FISCAL YEARS ENDING 9/30	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due	Interest Due	Total
2018	$ 35,000	99,173	134,173	225,000	134,881	359,881	740,000	533,928	1,273,928
2019	40,000	98,268	138,268	235,000	130,381	365,381	785,000	515,323	1,300,323
2020	40,000	97,234	137,234	245,000	125,681	370,681	825,000	495,379	1,320,379
2021	40,000	96,199	136,199	260,000	120,781	380,781	865,000	474,129	1,339,129
2022	240,000	95,165	335,165	270,000	115,581	385,581	910,000	451,365	1,361,365
2023	255,000	88,958	343,958	285,000	110,181	395,181	965,000	428,982	1,393,982
2024	265,000	82,364	347,364	300,000	104,481	404,481	1,005,000	403,608	1,408,608
2025	275,000	75,511	350,511	315,000	98,481	413,481	1,055,000	376,875	1,431,875
2026	285,000	68,400	353,400	330,000	92,181	422,181	1,105,000	348,074	1,453,074
2027	300,000	61,030	361,030	350,000	85,169	435,169	1,165,000	317,472	1,482,472
2028	305,000	66,600	371,600	365,000	77,294	442,294	1,210,000	297,467	1,507,467
2029	315,000	56,739	371,739	385,000	68,625	453,625	1,270,000	260,374	1,530,374
2030	330,000	46,555	376,555	400,000	59,000	459,000	1,330,000	220,035	1,550,035
2031	350,000	35,886	385,886	420,000	49,000	469,000	1,400,000	177,346	1,577,346
2032	370,000	24,571	394,571	445,000	38,501	483,501	1,475,000	131,558	1,606,558
2033	390,000	12,609	402,609	465,000	26,264	491,264	1,550,000	81,800	1,631,800
2034	-	-	-	490,000	13,474	503,474	935,000	36,836	971,836
	$ 3,835,000	1,105,262	4,940,262	5,785,000	1,449,956	7,234,956	18,590,000	5,550,551	24,140,551

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-6 ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2017

	Series 2010	Series 2013	Series 2014	Series 2016R	Series 2016	Total
Interest rate	3.00% to 5.00%	2.60% to 3.40%	2.00% to 3.40%	2.59% to 3.23%	2.00% to 2.75%	
Dates interest payable	3/1 ; 9/1	3/1 ; 9/1	3/1 ; 9/1	3/1 ; 9/1	3/1 ; 9/1	
Maturity date	2021	2033	2034	2033	2034	
Bonds outstanding, beginning of year	$ 810,000	$ 3,170,000	$ 5,250,000	$ 3,870,000	$ 6,000,000	$ 19,100,000
Bonds issued during current year	-	-	-	-	-	-
Bonds retired during current year	(140,000)	(120,000)	-	(35,000)	(215,000)	(510,000)
Bonds outstanding, end of year	$ 670,000	$ 3,050,000	$ 5,250,000	$ 3,835,000	$ 5,785,000	$ 18,590,000
Interest paid during current year	$ 32,584	$ 120,162	$ 155,636	$ 100,078	$ 139,182	$ 547,642
Paying agent's name & address:	Regions Bank Houston, TX	Amegy Bank Houston, TX	Amegy Bank Houston, TX	Regions Bank Houston, TX	Amegy Bank Houston, TX	

	Waterworks, Sanitary Sewer and Drainage System Tax Bonds	(1) Roadway System Tax Bonds	Waterworks, Sanitary Sewer and Drainage System Refunding Bonds	(1) Roadway System Refunding Bonds
Bond authority:				
Bond authorized by voters	$ 46,185,000	32,070,000	46,185,000	45,070,000
Amount issued	19,500,000	-	3,885,000	-
Remaining to be issued	$ 26,685,000	32,070,000	42,300,000	45,070,000

(1) In 2007, the voters of the District authorized issuance of $32,070,000 in roadway system bonds for the purpose of constructing, maintaining and operating roads, and issuance of $45,070,000 in refunding bonds for refunding of roadway system bonds. Due to changes in law since such authorizations, the District does not anticipate issuance of roadway system bonds in the full amount authorized. The District anticipates that issuance of roadway system bonds will be limited to reimbursement for design and construction of roads meeting the criteria of Hays County for a "thoroughfare, arterial or collector road." The District currently estimates that the District will issue approximately $4,000,000 to $7,000,000 in roadway system bonds, and is in the process of identifying those roads that will be reimbursable.

Debt Service Fund cash and temporary investments balances as of September 30, 2017:	$ 1,089,120
Average annual debt service payments (principal & interest) for remaining term of debt:	$ 1,420,032

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL FUND AND DEBT SERVICE FUND FIVE YEARS ENDED SEPTEMBER 30, 2017

	AMOUNTS					PERCENT OF FUND TOTAL REVENUES				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
GENERAL FUND										
REVENUES AND OTHER SOURCES:										
Water and wastewater services	$ 873,764	665,142	505,086	333,590	336,001	28.3 %	25.4 %	26.7	20.7	20.7
Park fees	66,750	95,250	75,000	65,250	96,750	2.2	3.6	4.0	4.0	5.9
Tap connection/inspection fees	212,432	212,762	173,333	154,341	192,770	6.9	8.1	9.1	9.5	11.9
Basic services	828,161	712,473	576,927	423,957	338,348	26.8	27.3	30.4	26.2	20.8
Property taxes	1,104,911	926,275	565,893	554,265	509,469	35.7	35.4	29.8	34.2	31.3
Penalties and interest on tax accounts	1,713	1,756	523	545	959	0.1	0.1	-	-	-
Texas Parks and Wildlife Department grant	-	-	-	-	152,187	-	-	-	-	9.4
Interest income and other	1,424	792	16	45	70	-	0.1	-	-	-
Transfers in	-	-	-	86,846	-	-	-	-	5.4	-
Total revenues and other sources	3,089,155	2,614,450	1,896,778	1,618,839	1,626,554	100.0	100.0	100.0	100.0	100.0
EXPENDITURES:										
Service operations:										
Repair and maintenance	614,842	611,932	524,864	466,809	320,247	19.9	23.4	27.7	28.8	19.7
Bulk water purchases	237,016	234,722	185,188	180,137	241,939	7.7	9.0	9.8	11.1	14.9
WTCPUA base fees	211,564	155,210	158,039	126,772	86,259	6.8	5.9	8.3	7.8	5.3
Garbage services	157,186	130,139	111,703	96,667	74,508	5.1	5.0	5.9	6.0	4.6
Legal fees	146,348	105,746	109,770	98,973	105,625	4.7	4.0	5.8	6.1	6.5
Management services	281,750	90,832	78,301	71,214	65,595	9.1	3.5	4.1	4.4	4.0
Engineering fees	44,519	89,007	29,380	67,151	31,520	1.4	3.4	1.5	4.1	1.9
WTCPUA reservation fees	49,897	51,760	58,102	53,305	47,471	1.6	2.0	3.1	3.3	2.9
Tap inspection fees	51,080	82,792	53,711	44,064	47,580	1.7	3.2	2.8	2.7	2.9
Directors' fees	18,752	21,554	14,903	19,140	17,459	0.6	0.8	0.8	1.2	1.1
Audit fees	16,500	22,000	14,000	14,000	13,000	0.5	0.8	0.7	0.9	0.8
Insurance	7,400	6,518	5,836	9,659	9,681	0.2	0.2	0.3	0.6	0.6
Financial advisor fees	2,500	2,700	2,500	2,500	2,500	0.1	0.1	0.1	0.2	0.2
Other	38,067	32,977	18,500	24,836	21,508	1.2	1.3	1.0	1.5	1.3
Capital outlay	178,416	-	-	14,044	116,541	5.8	-	-	0.9	7.2
Total expenditures	2,055,837	1,637,889	1,364,797	1,289,271	1,201,433	66.6	62.6	72.0	79.6	73.9
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	$ 1,033,318	976,561	531,981	329,568	425,121	33.4 %	37.4 %	28.0	20.4	26.1
DEBT SERVICE FUND										
REVENUES AND OTHER SOURCES:										
General revenues:										
Property taxes	$ 1,073,051	771,210	758,520	406,309	220,491	99.1 %	74.4 %	68.5	57.6	98.9
Interest income and other	8,608	6,393	5,375	3,565	2,044	0.8	0.6	0.5	0.5	0.9
Penalties and interest on tax accounts	1,663	1,474	621	400	414	0.2	0.1	0.1	0.1	0.2
Proceeds from sale of bonds	-	162,140	342,271	295,307	-	0.1	15.7	30.9	41.8	-
Issuance of refunding bonds	-	3,885,000	-	-	-	-	374.7	-	-	-
Payment to refunded bond escrow agent	-	(3,789,435)	-	-	-	-	(365.5)	-	-	-
Total revenues and other sources	1,083,322	1,036,782	1,106,787	705,581	222,949	100.2	100.0	100.0	100.0	100.0
EXPENDITURES:										
Service operations-										
Other	12,112	8,352	7,648	4,487	3,200	1.1	0.8	0.7	0.6	1.4
Debt service:										
Principal	510,000	265,000	235,000	220,000	-	47.1	25.6	21.2	31.2	-
Interest	547,642	457,574	468,947	324,347	218,850	50.6	44.1	42.4	46.0	98.2
Bond issuance costs	-	95,724	-	-	-	-	9.2	-	-	-
Total expenditures	1,069,754	826,650	711,595	548,834	222,050	98.7	79.7	64.3	77.8	99.6
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	$ 13,568	210,132	395,192	156,747	899	1.3 %	20.3 %	35.7	22.2	0.4
TOTAL ACTIVE RETAIL WATER CONNECTIONS	794	703	589	509	396					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	789	699	586	504	389					

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-8 BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
YEAR ENDED SEPTEMBER 30, 2017

Complete District Mailing Address: c/o Winstead PC
401 Congress Avenue, Suite 2100, Austin, Texas 78701

District Business Telephone Number: (512) 370-2939

Submission date of the most recent District Registration Form: September 22, 2017
(TWC Sections 36.054 and 49.054)

Limit on fees of office that a director may receive during a fiscal year: $7,500
(Set by Board Resolution - TWC Sections 49.060)

Name	Term of Office Elected & Expires or Date Hired	Fees 9/30/17	Expense Reimbursements 9/30/17	Title at Year End
Board Members:				
Royce Wachsmann	Elected 5/12 - 5/20	$ 2,700	$ 207	President
Donald P. Kelly	Elected 5/14 - 5/18	3,150	241	Vice President
Sean McGillicuddy	Appointed 8/17- 5/20	300	23	Secretary
William Carroll Kelly, IV	Appointed 8/17- 5/20	150	11	Treasurer and Assistant Secretary
Samantha E. Bethke	Appointed 8/17- 5/20	-	-	Assistant Secretary
Former Board Members:				
Thomas Patrick Phillips	Elected 5/12 - 8/17	4,500	344	
Robert M. Krick	Elected 5/12 - 8/17	4,500	344	
Jason Mehigan	Appointed 10/15 - 8/17	1,050	80	

Note: No director is disqualified from serving on this board under the Texas Water Code.

(continued)

TSI-8 BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (continued)
YEAR ENDED SEPTEMBER 30, 2017

Name	Date Hired	Fees and Expense Reimbursements 9/30/17	Title at Year End
Consultants:			
Severn Trent Environmental Services	2001	$407,154	General Manager
Barrett and Associates PLLC	2001	$16,506	Attorney
Winstead PC	2015	$49,095	Attorney
Graves Dougherty Hearonn & Moody	2013	$40,983	Former Attorney
Law Office of Matthew B. Kutac, PLLC	2017	$36,456	Attorney
CMA Engineering, Inc.	2001	$196,012	Engineer
Maxwell Locke & Ritter LLP	2005	$16,500	Auditor
SAMCO Capital Markets	2005	$2,500	Financial Advisor
Hays Central Appraisal District	2006	$15,630	Tax Appraiser
Hays County Tax Office	2007	$138	Tax Collector
Environmental Survey Consulting, Inc	2013	$4,329	Environmental Consultant

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

OSI-1 PRINCIPAL TAXPAYERS
YEAR ENDED SEPTEMBER 30, 2017

Taxpayer	Type of Property	Tax Roll Year 2017	Tax Roll Year 2016
LH Belterra LLC	Land & Improvements	$ 5,684,770	$ -
Sitterle Homes-Austin LLC	Land & Improvements	2,859,710	1,993,110
Grand Haven Homes LP	Land & Improvements	2,316,870	-
Trendmaker Homes Inc	Land & Improvements	2,181,514	800,000
Drees Custom Homes LP	Land & Improvements	1,689,480	897,870
Scott Felder Homes LLC	Land & Improvements	1,357,520	831,640
Walker Richard and Patricia	Land & Improvements	1,211,210	1,249,150
Scott Felder Homes LLC	Land & Improvements	862,500	-
Kalush Michelle and Matthew	Land & Improvements	721,970	-
Miller Andres Sidney and Meredith	Land & Improvements	689,340	-
Crescent Belterra Tx LLC	Land & Improvements	-	5,313,760
Highland Homes-Austin LLC	Land & Improvements	-	771,660
Weekley Homes LLC	Land & Improvements	-	733,633
Betzing Jeffrey R	Land & Improvements	-	731,610
MHI Partnership Ltd	Land & Improvements	-	700,000

HAYS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

OSI-2 ASSESSED VALUE BY CLASSIFICATION
YEAR ENDED SEPTEMBER 30, 2017

	Tax Roll Years			
	2017		2016	
	Amount	%	Amount	%
Single Family	$ 295,720,456	93%	$ 231,660,590	92%
Inventory	17,000,550	5%	14,487,530	6%
Vacant Platted Lots/ Tracts	3,686,640	1%	3,110,450	1%
Acreage	1,326,410	1%	1,721,580	1%
Farm and Ranch	829,520	0%	699,910	0%
Business	452,496	0%	413,664	0%
Total	$ 319,016,072	100%	$ 252,093,724	100%

APPENDIX B

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com. BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law. BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $524 million, $104.1 million and $419.9 million, respectively. BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions. BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published. BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

BAM GreenStar Bonds

The Bonds have been designated BAM GreenStar Bonds because the use of proceeds provided by the Issuer and described elsewhere in this Official Statement aligns with one of the Green Bond Principals (GBPs) developed by the International Capital Markets Association (ICMA). The GBPs were developed by the ICMA with the goal of establishing universally accepted guidelines for the issuance of green bonds, and one of the key requirements addresses the use of proceeds. BAM has been identified by the ICMA as an observer organization that is active in the field of green and/or social or sustainability finance and is Climate Bond Initiative approved verifier. The Credit Profile prepared by BAM for the Bonds will identify which of the following GBP categories applies to the Bonds:

• renewable energy
• energy efficiency
• pollution prevention and control
• environmentally sustainable management of living natural resources and land use
• terrestrial and aquatic biodiversity
• clean transportation
• climate change adaptation
• sustainable water and wastewater management
• green buildings.

Each of the GBPs correlates to one of the following UN Sustainable Development Goals which will also be included in the Credit Profile for the Bonds:

• clean water and sanitation
• affordable and clean energy
• sustainable cities and communities
• industry innovation and infrastructure
• responsible consumption and production
• climate action
• life below water
• life on land

For projects under construction, the bond obligor has agreed to furnish annual information to BAM on the status of the project until completion, which will be reflected in the BAM Credit Profile for the Bonds.

The BAM GreenStar designation is based upon information obtained from the Issuer and its representatives, which sources BAM believes to be reliable, at the time of the issuance of the Bonds. BAM does not charge a fee in connection with the designation, does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. The designation is provided on an "AS IS" basis. BAM makes no representation or warranty, express or implied, including, but not limited to, the accuracy, results, timeliness, completeness, merchantability or fitness for any particular purpose with respect to the designation. A complete description of BAM GreenStar, and its limitations and terms of use, are available on BAM's website https://buildamerica.com/greenstar and https://buildamerica.com/terms-of-use and incorporated herein by reference. The BAM GreenStar designation is determined solely by BAM; it has not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for such designation.

Additional Information Available from BAM

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

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

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of
the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content. BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

(this page intentionally left blank)

APPENDIX C

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $ _________
Total Insurance Payment: $_________

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ______________________________________

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
200 Liberty Street, 27th floor
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

(this page intentionally left blank)

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.