

OFFICIAL STATEMENT DATED MARCH 24, 2020

IN THE OPINION OF BOND COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. BOND COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. See "TAX MATTERS" for a discussion on the opinion of Bond Counsel

The Bonds have been designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."

NEW ISSUE – BOOK-ENTRY-ONLY

S&P Global Ratings (BAM Insured)..... "AA"
See "MUNICIPAL BOND INSURANCE" and "RATINGS"

\$1,830,000

KENDALL COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2A
(A political subdivision of the State of Texas, located within Kendall County, Texas)

UNLIMITED TAX BONDS, SERIES 2020

Interest accrues from: April 1, 2020

Due: September 1, as shown below

Interest on the \$1,830,000 Kendall County Water Control & Improvement District No. 2A Unlimited Tax Bonds, Series 2020 (the "Bonds") will accrue from April 1, 2020, and is payable on September 1, 2020, and on each March 1 and September 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 principal 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, New York, New York ("DTC"), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is Zions Bancorporation, National Association, in Houston, Texas (the "Paying Agent/Registrar"). The Bonds are obligations solely of Kendall County Water Control & Improvement District No. 2A (the "District") and are not obligations of the State of Texas; Kendall County; Texas, the City of Boerne, Texas; or any entity other than the District.

See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIP NOS." on inside cover.

The Bonds constitute the third series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system (the "System") within the District. Voters in the District have authorized a total of \$92,257,640 principal amount of bonds for the purpose of acquiring or constructing the System to serve the District, \$138,386,460 principal amount of refunding bonds for the System, \$28,227,790 principal amount of bonds for the purpose of acquiring or constructing roads in the District, \$42,341,685 principal amount of refunding bonds for the purpose of acquiring or constructing roads in the District, \$5,150,000 principal amount of bonds for firefighting purposes and \$7,725,000 principal amount of refunding bonds for firefighting purposes. Following the issuance of the Bonds, \$83,337,640 principal amount of unlimited tax bonds for the System, \$138,386,460 principal amount of refunding bonds for the System, \$24,877,790 principal amount of bonds for the purpose of acquiring or constructing roads in the District, \$42,341,685 principal amount of refunding bonds for the purpose of acquiring or constructing roads in the District, \$5,150,000 principal amount of bonds for firefighting purposes and \$7,725,000 principal amount of refunding bonds for firefighting purposes will remain authorized but unissued. The Bonds, when issued, will constitute legal, valid and binding obligations of the District, payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment."

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.**



The Bonds are offered by the initial purchaser of the Bonds (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 Bonds by the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel. Delivery of the Bonds is expected on or about April 23, 2020.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIP NOS.

\$1,830,000 Unlimited Tax Bonds, Series 2020 Serial Bonds

\$185,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 48872T (b)
2021	\$45,000	6.000%	3.000%	DB3
2022	45,000	6.000%	3.050%	DC1
2023	45,000	6.000%	3.100%	DD9
2024	50,000	6.000%	3.150%	DE7

\$1,645,000 Term Bonds

\$100,000 Term Bond due September 1, 2026 (c)(d) Interest Rate 6.000% (Price: \$111.380) (a) CUSIP No. 48872T DG2 (b)

\$110,000 Term Bond due September 1, 2028 (c)(d) Interest Rate 6.000% (Price: \$111.294) (a) CUSIP No. 48872T DJ6 (b)

\$120,000 Term Bond due September 1, 2030 (c)(d) Interest Rate 6.000% (Price: \$111.208) (a) CUSIP No. 48872T DL1 (b)

\$130,000 Term Bond due September 1, 2032 (c)(d) Interest Rate 6.000% (Price: \$111.122) (a) CUSIP No. 48872T DN7 (b)

\$220,000 Term Bond due September 1, 2035 (c)(d) Interest Rate 3.750% (Price: \$97.148) (a) CUSIP No. 48872T DR8 (b)

\$340,000 Term Bond due September 1, 2039 (c)(d) Interest Rate 4.000% (Price: \$99.329) (a) CUSIP No. 48872T DV9 (b)

\$625,000 Term Bond due September 1, 2045 (c)(d) Interest Rate 4.000% (Price: \$98.428) (a) CUSIP No. 48872T EB2 (b)

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser (herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchases. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence LLC on behalf of the American Bankers Association, and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2025, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – *Optional Redemption*."
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under "THE BONDS – Redemption Provisions – *Mandatory Redemption*."

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.

All of the summaries of the statutes, resolutions, orders, contracts, audits, engineering and other related reports set forth in this 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 Bond Counsel, for further information.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an 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.

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

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or 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 other matters described herein since the date hereof. 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 such information actually comes to its attention, the other matters described in this Official Statement, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT - Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for any purpose.

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT.....	2	Tax Collection Limitations.....	15
SALE AND DISTRIBUTION OF THE BONDS.....	4	2019 Legislative Session.....	15
Award of the Bonds.....	4	Risks Related to Coronavirus.....	15
Prices and Marketability.....	4	Potential Impact of Natural Disaster.....	15
Securities Laws.....	4	Reappraisal of Property.....	16
Delivery of Official Statements.....	4	THE BONDS.....	16
MUNICIPAL BOND INSURANCE.....	4	General.....	16
Bond Insurance Policy.....	4	Redemption Provisions.....	16
Build America Mutual Assurance Company.....	5	Registration, Transfer and Exchange.....	18
RATINGS.....	6	Record Date for Interest Payment.....	18
OFFICIAL STATEMENT SUMMARY.....	7	Mutilated, Lost, Stolen or Destroyed Bonds.....	18
SELECTED FINANCIAL INFORMATION.....	10	Replacement of Paying Agent/Registrar.....	18
INTRODUCTION.....	11	Source of Payment.....	19
RISK FACTORS.....	11	Payment Record.....	19
General.....	11	Authority for Issuance.....	19
Factors Affecting Taxable Values and Tax Payments.....	11	Issuance of Additional Debt.....	19
Tax Collections and Foreclosure Remedies.....	12	Outstanding Bonds.....	19
Limitation to Registered Owners' Remedies.....	12	Registered Owners' Remedies.....	20
Bankruptcy Limitation to Registered Owners' Rights.....	12	Bankruptcy Limitation to Registered Owners' Rights.....	20
Environmental Regulations.....	13	Defeasance.....	20
Changes in Tax Legislation.....	14	Legal Investment and Eligibility to Secure Public Funds in Texas.....	21
Marketability.....	14	BOOK-ENTRY-ONLY SYSTEM.....	21
Continuing Compliance with Certain Covenants.....	14	USE AND DISTRIBUTION OF BOND PROCEEDS.....	23
Future Debt.....	14	THE DISTRICT.....	24
Approval of the Bonds.....	15	General.....	24
Consolidation.....	15		

Description	24
Management of the District	24
DEVELOPMENT AGREEMENT WITH THE CITY	25
Police and Fire Services	25
The Public Infrastructure	25
Ownership, Operation, and Maintenance of the Public Infrastructure.....	26
CONSENT AGREEMENT WITH THE CITY.....	26
STRATEGIC PARTNERSHIP AGREEMENT WITH THE CITY.....	26
DEVELOPER AND PRINCIPAL LANDOWNER	26
The Role of a Developer	26
Developer and Principal Landowner	27
Development Financing	27
Lot Sales Contracts.....	27
DEVELOPMENT WITHIN THE DISTRICT.....	28
Current Status of Development	28
Homebuilders.....	28
LOCATION MAP	29
AERIAL PHOTOGRAPHS OF THE DISTRICT	30
AERIAL PHOTOGRAPHS OF THE DISTRICT	31
AERIAL PHOTOGRAPHS OF THE DISTRICT	32
TAX DATA	33
General	33
Tax Rate Limitation.....	33
Debt Service Tax.....	33
Maintenance and Operations Tax	33
Tax Exemption	33
Additional Penalties	33
Historical Tax Collections.....	33
Tax Rate Distribution	34
Analysis of Tax Base.....	34
Principal Taxpayers	34
Tax Rate Calculations	34
Estimated Overlapping Taxes.....	34
THE SYSTEM.....	35
General	35
Description of the System	35
Master District Contract.....	36
Historical Operations of the System	37
DISTRICT DEBT	38
Debt Service Requirements	39
Estimated Direct and Overlapping Debt Statement	40
Debt Ratios	40
TAXING PROCEDURES.....	40
Authority to Levy Taxes	40
Property Tax Code and County-Wide Appraisal District.....	40
Property Subject to Taxation by the District.....	41
Valuation of Property for Taxation.....	42
District and Taxpayer Remedies	42
Rollback of Operation and Maintenance Tax Rate	42
Agricultural, Open Space, Timberland and Inventory Deferment.....	43
Levy and Collection of Taxes.....	43
District's Rights in the Event of Tax Delinquencies	44
LEGAL MATTERS	44
Legal Proceedings.....	44
No-Litigation Certificate	44
No Material Adverse Change.....	44
TAX MATTERS	44
Proposed Tax Legislation	45
Tax Accounting Treatment of Original Issue Discount.....	45

Qualified Tax-Exempt Obligations for Financial Institutions	46
CONTINUING DISCLOSURE OF INFORMATION.....	46
Annual Reports.....	47
Event Notices	47
Availability of Information.....	47
Limitations and Amendments.....	47
Compliance with Prior Undertakings	48
OFFICIAL STATEMENT	48
Preparation.....	48
Experts.....	48
Auditor.....	48
Certification as to Official Statement.....	48
Updating of Official Statement	49
Miscellaneous	49

APPENDIX A - FINANCIAL STATEMENTS OF
THE DISTRICT

APPENDIX B - SPECIMEN MUNICIPAL BOND
INSURANCE POLICY

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser"). The Initial Purchaser has agreed to purchase the Bonds, bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIP NOS" on the cover page of this Official Statement, at a price of 97.368743% of the principal amount thereof plus accrued interest thereon to the date of delivery, which resulted in a net effective interest rate of 4.475628%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

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 United States Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

Delivery of Official Statements

The District shall furnish to the Initial Purchaser (and to each participating underwriter of the Bonds, within the meaning of SEC Rule 15c2-12(a), designated by the Initial Purchaser), within seven (7) business days after the sale date, the aggregate number of Official Statements agreed upon between the District and the Initial Purchaser. The District also shall furnish to the Initial Purchaser a like number of any supplements or amendments approved and authorized for distribution by the District for dissemination to potential underwriters of the Bonds, as well as such additional copies of the Official Statement or any such supplements or amendments as the Initial Purchaser may reasonably request prior to the 90th day after the end of the underwriting period described in SEC Rule 15c2-12(f)(2). The District shall pay the expense of preparing the number of copies of the Official Statement agreed upon between the District and the Initial Purchaser and an equal number of any supplements or amendments issued on or before the delivery date, but the Initial Purchaser shall pay for all other copies of the Official Statement or any supplement or amendment thereto.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). 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 December 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$534.9 million, \$132.5 million and \$402.4 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 this heading "MUNICIPAL BOND INSURANCE."

Additional Information Available from BAM

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

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

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

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

RATINGS

S&P is located at 55 Water Street, 38th Floor, New York, New York 10041, telephone number (212) 438-2074 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The Bonds have received an insured rating of "AA" (stable outlook) on the Bonds from S&P solely in reliance upon the issuance of the Policy issued by BAM at the time of delivery of the Bonds.

Furthermore, a security rating is not a recommendation to buy, sell or hold securities. 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 S&P, if, in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P.

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in the 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 BONDS

The District.....	Kendall County Water Control & Improvement District No. 2A (the "District"), a political subdivision of the State of Texas, is located in Kendall County, Texas. See "THE DISTRICT – General" and "– Description."
Description of the Bonds.....	\$1,830,000 Kendall County Water Control & Improvement District No. 2A Unlimited Tax Bonds, Series 2020 (the "Bonds"), are dated April 1, 2020, and mature on September 1 in the years and amounts set forth on the cover page hereof. Interest on the Bonds accrues from April 1, 2020, and is payable on September 1, 2020, and on each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 of principal amount for any one maturity. See "THE BONDS – General."
Redemption Provisions	<p>Bonds maturing on or after September 1, 2025, are subject to redemption, in whole or from time to time in part, at the option of the District on September 1, 2024, and any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Redemption Provisions – <i>Optional Redemption</i>."</p> <p>The Bonds that mature on September 1 in the years 2026, 2028, 2030, 2032, 2035, 2039 and 2045 are term bonds that are also subject to the mandatory redemption provisions set out herein under "THE BONDS – Redemption Provisions – <i>Mandatory Redemption</i>."</p>
Source of Payment	Principal and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem property tax levied upon all taxable property within the District without legal limitation as to rate or amount. The Bonds are obligations solely of the District, and are not obligations of the State of Texas; Kendall County, Texas; the City of Boerne, Texas; or any entity other than the District. See "THE BONDS – Source of Payment."
Authority for Issuance	<p>Voters in the District have authorized a total of \$92,257,640 principal amount of bonds for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system (the "System") to serve the District, \$138,386,460 principal amount of refunding bonds for the System, \$28,227,790 principal amount of bonds for the purpose of acquiring or constructing roads in the District, \$42,341,685 principal amount of refunding bonds for the purpose of acquiring or constructing roads in the District, \$5,150,000 principal amount of bonds for firefighting purposes and \$7,725,000 principal amount of refunding bonds for firefighting purposes.</p> <p>Following the issuance of the Bonds, \$24,877,790 principal amount of bonds for roads in the District, \$42,341,685 principal amount of refunding bonds for roads in the District, \$83,337,640 principal amount of unlimited tax bonds for the System, \$138,386,460 principal amount of refunding bonds for the System, \$5,150,000 principal amount of bonds for firefighting purposes and \$7,725,000 principal amount of refunding bonds for firefighting purposes will remain authorized but unissued. The Bonds, when issued, will constitute valid and binding obligations of the District, payable from the proceeds of a continuing direct annual ad valorem property tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment."</p> <p>The Bonds are issued pursuant to (i) an order adopted by the Board of Directors of the District on the date of the sale of the Bonds (the "Bond Order"); (ii) Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, particularly Chapters 49 and 51, Texas Water Code, as amended; (iii); an election held within the District on November 8, 2011; and (iv) an order issued by the Texas Commission on Environmental Quality</p>

(the "TCEQ"). See "THE BONDS – Authority for Issuance, and –Issuance of Additional Debt."

Outstanding Bonds.....	The Bonds constitute the third series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the System within the District. The District previously issued two series of unlimited tax bonds for the purpose of acquiring or constructing the System to serve the District: \$4,000,000 Unlimited Tax Bonds, Series 2017 and \$3,090,000 Unlimited Tax Bonds, Series 2018. The District previously issued one series of unlimited tax bonds for the purpose of constructing a road system to serve the District: \$3,350,000 Unlimited Tax Road Bonds, Series 2019. Of such series of bonds previously issued, \$10,255,000 principal amount remains outstanding as of February 1, 2020 (the "Outstanding Bonds"). See "THE BONDS – Outstanding Bonds".
Use of Proceeds	Proceeds of the Bonds will be used to (i) reimburse the Developer (hereinafter defined) for operating costs, (ii) pay capitalized interest on the Bonds, developer interest, and to pay bond issuance costs, and (iii) fund the Master District connection charges for its water, wastewater, and drainage facilities serving the District. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
Municipal Bond Insurance.....	Build America Mutual Assurance Company ("BAM"). See "MUNICIPAL BOND INSURANCE."
Ratings	S&P Global Ratings (BAM Insured): "AA." See "RATINGS."
Tax Exemption.....	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and interest on the Bonds is not subject to the alternative minimum tax on individuals. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.
Qualified Tax Exempt Obligations for Financial Institutions	The Bonds have been designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."
General & Bond Counsel.....	Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas.
Disclosure Counsel	Orrick, Herrington & Sutcliffe LLP, Houston, Texas.
Financial Advisor.....	Robert W. Baird & Co. Incorporated, Houston, Texas.
District Engineer.....	Kimley-Horn and Associates, Inc., Austin, Texas.

THE DISTRICT

The Issuer	The District was created pursuant to an election held on May 9, 2009 dividing Kendall County Water Control and Improvement District No. 2 ("KC WCID 2") into KC WCID 2 and the District. See "THE DISTRICT – General."
Location.....	The District is located approximately 32 miles northwest of San Antonio and 2.5 miles east of the central business district of the City of Boerne (the "City") in Kendall County, Texas. Access to the District is provided from State Highway 46, which connects to Interstate 10 on the west and US Highway 281 on the east. The District lies generally north of the intersection of Highway 46 and Amman Road. Highway 46 provides access to Esperanza Boulevard which enters the District's southern boundary. The District is located wholly within the extra-territorial jurisdiction ("ETJ") of the City of Boerne (the 'City').
Developer and Principal Landowner	The principal owners and developers of land within the District are Lookout Boerne Holdings, LP, a Texas limited partnership and Lookout Development Group, L.P., a Texas limited partnership ("LDG") (collectively the "Developer"). The Developer is a privately-held real estate company based in Houston, Texas, with land development operations in various central Texas cities, including Boerne, Leander, Liberty Hill and Waxahachie. Both principals each have more than 30 years of experience in their respective

area of expertise. LDG and its affiliates have been responsible for the acquisition, entitlement and development of over 10,000 acres consisting of approximately 8,000 residential lots. See “DEVELOPER AND PRINCIPAL LANDOWNER.”

Development within the District..... Land within the District has been developed as the single-family subdivision of Esperanza, Phases 1, 2A, 1B, 2B and 2D (aggregating approximately 177.69 acres and 322 single-family lots) and the Esperanza Amenity Center (approximately 17.08 acres). In addition, an elementary school has been constructed on approximately 20.01 acres of land. The elementary school opened in August of 2019 and the Esperanza Amenity Center opened on August 1, 2019. As of December 31, 2019, the District consisted of 185 completed homes, 5 completed model homes, 45 homes under construction, and 87 vacant developed lots. Additionally, there are 164 lots under construction on approximately 56.78 acres. The remaining land within the District consists of approximately 155.89 undeveloped but developable acres and approximately 40.38 undevelopable acres of open space. See “DEVELOPMENT WITHIN THE DISTRICT.”

Development Agreement with the City..... The District and the Developer have entered into an agreement with the City to provide water and sewer service to the property within the District. See “DEVELOPMENT AGREEMENT WITH THE CITY.”

RISK FACTORS

THE BONDS ARE SUBJECT TO CERTAIN RISK FACTORS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED “RISK FACTORS.”

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**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2019 Certified Taxable Assessed Valuation	\$ 77,717,179	(a)
Estimate of Value as of January 1, 2020	\$ 110,183,480	(b)
Direct Debt:		
The Outstanding Bonds	\$ 10,255,000	
The Bonds	<u>\$ 1,830,000</u>	
Total	\$ 12,085,000	
Estimated Overlapping Debt	<u>\$ 3,601,894</u>	(c)
Total Direct and Estimated Overlapping Debt	<u>\$ 15,686,894</u>	(c)
Direct Debt Ratios:		
As a percentage of 2019 Certified Taxable Assessed Valuation	15.55 %	
As a percentage of 2020 Estimate of Value	10.97 %	
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of 2019 Certified Taxable Assessed Valuation	20.18 %	
As a percentage of 2020 Estimate of Value	14.24 %	
General Operating Fund (as of February 26, 2020)	\$ 161,074	
Capital Projects Fund (as of February 26, 2020)	\$ 594	
Road Debt Service Fund (as of February 26, 2020)	\$ 300,663	(d)
System Debt Service Fund (as of February 26, 2020)	\$ 684,296	(e)
2019 District Tax Rate per \$100 of Assessed Valuation		
System Debt Service	\$0.58	(f)
Road Debt Service	\$0.17	
Maintenance	<u>\$0.20</u>	
Total	\$0.95	
Average Annual Debt Service Requirements (2020-2045)	\$ 722,695	
Maximum Annual Debt Service Requirement (2042)	\$ 814,950	
Combined Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements the Bonds (2020-2045) at 95% Tax Collections		
Based Upon 2019 Certified Taxable Assessed Valuation (\$77,717,179)	\$0.98	
Based Upon the 2020 Estimate of Value (\$110,183,480)	\$0.70	
Combined Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement on the Bonds (2042) at 95% Tax Collections		
Based Upon 2019 Certified Taxable Assessed Valuation (\$77,717,179)	\$1.11	
Based Upon the 2020 Estimate of Value (\$110,183,480)	\$0.78	
Number of Single-Family Homes (including 45 homes in various stages of construction) as of December 31, 2019	235	

- (a) As certified by the Kendall Appraisal District (the "Appraisal District"). All property located in the District is valued on the tax rolls by the Appraisal District at 100% of estimated market value as of January 1 of each year. Includes \$40,000, which represents 80% of uncertified value.
- (b) Provided by the Appraisal District as the estimate of value as of January 1, 2020. This value represents the estimated determination of the taxable value in the District as of January 1, 2020. No taxes will be levied on this preliminary value, which is subject to protest by the landowners. The value will be certified by the Appraisal Review Board (hereinafter defined) and taxes will be levied on the certified value. See "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement."
- (d) Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Road Debt Service Fund.
- (e) Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's System Debt Service Fund. In addition, capitalized interest will be deposited into the System Debt Service Fund upon delivery of the Bonds.
- (f) The District levied a debt service tax rate of \$0.58 for System purposes for the 2019 tax year. The District anticipates levying a debt service tax rate for System purposes for the 2020 tax year.

Official Statement
relating to
\$1,830,000

KENDALL COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2A
(A Political Subdivision of the State of Texas Located in Kendall County, Texas)

Unlimited Tax Bonds, Series 2020

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Kendall County Water Control & Improvement District No. 2A (the "District") of its \$1,830,000 Unlimited Tax Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, including Chapters 49 and 51, Texas Water Code, as amended; an order authorizing issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"); and an election held within the boundaries of the District on November 8, 2011.

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 Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056 or during the offering period from the District's Financial Advisor, Robert W. Baird & Co. Incorporated, Attn: Jan Bartholomew, 1331 Lamar, Suite 1360, Houston, Texas 77010 upon payment of reasonable copying, mailing and handling charges.

RISK FACTORS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Kendall County, Texas; the City of Boerne, Texas (the "City"); or any other political subdivision, will be secured by a continuing direct annual ad valorem property 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: The rate of development within the District is directly related to the vitality of the residential housing industry in Kendall County and the San Antonio-Boerne metropolitan area. New residential housing construction can be significantly affected by factors such as general economic activity, interest rates, credit availability, energy costs, construction costs, the level of unemployment and consumer demand. Decreased levels of such construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development in the District. See "DEVELOPMENT WITHIN THE DISTRICT."

Location and Access: The District is located approximately 32 miles northwest of San Antonio and 2.5 miles east of the central business district of the City. Access to the District is provided from State Highway 46, which connects to Interstate 10 on the west and US Highway 281 on the east. The District lies generally north of the intersection of Highway 46 and Amman Road. Highway 46 provides access to Esperanza Boulevard which enters the District's southern boundary. The District is located wholly within the City's ETJ about two (2) miles east of the City. The District is east of Interstate 10 and lies generally north of the intersection of Highway 46 and Amman Road. See "THE DISTRICT."

Principal Landowners' Obligations to the District: The District's tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption "TAX DATA - Principal Taxpayers," the District's ten principal taxpayers in 2019 owned property located in the District, with an aggregate assessed valuation of \$19,952,190, which comprised approximately 25.69% of the District's total assessed valuation. While the development of lots is currently ongoing, the District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers, or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. Failure by one or more of the District's principal property owners to make full and timely payments of taxes due may have an adverse effect on

the investment quality or security of the Bonds. If any one or more of the principal taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. The District levied a maintenance tax of \$0.20 per \$100 of assessed valuation for 2019.

Competition: The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. Many of the other developments are generally accessible by the same commuter routes and served by the same employment centers and school districts causing the developments to compete with one another for the same pool of buyers at similar price points and amenity levels.

The competitive position of the Developer (hereinafter defined) in the sale of land, and the sale of residences is affected by most of the factors discussed in this section. Such competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Developer Under No Obligation to the District: The Developer has informed the District of its current plans to continue to develop land in the District for residential purposes. However, the Developer is not obligated to implement such plan on any particular schedule or at all. Thus, the furnishing of information related to the proposed development by the Developer should not be interpreted as such a commitment. 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 their holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts 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 – Principal 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 conditions may have on its ability to pay taxes. See "DEVELOPER AND PRINCIPAL LANDOWNERS," and "DEVELOPMENT WITHIN THE DISTRICT."

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 to pay their taxes. The 2019 Certified Taxable Assessed Valuation of property located within the District (see "TAX DATA") is \$77,717,179 and the January 1, 2020 Estimate of Value is \$110,183,480. After issuance of the Bonds, the maximum annual debt service requirement on the Bonds will be \$814,950 (2042) and the average annual debt service requirements will be \$722,695 (2020-2045, inclusive). Assuming no increase to, nor decrease from, the 2019 Certified Taxable Assessed Valuation of \$77,717,179, tax rates of \$1.11 and \$0.98 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no increase to, nor decrease from, the January 1, 2020 Estimate of Value of \$110,183,480, tax rates of \$0.78 and \$0.70 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively.

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. See "TAXING PROCEDURES."

Limitation to Registered Owners' Remedies

In the event of default in the payment of principal or interest on the Bonds, the registered owners of 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.

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 has negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law, a special purpose district, such as the District, must obtain the approval of the Texas Commission on Environmental Quality (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 invoking 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 owners' claims.

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

A special purpose district cannot be placed into bankruptcy involuntarily.

Environmental Regulations

Wastewater treatment, water supply, storm sewer facilities and construction activities within the District are subject to complex environmental laws and regulations at the federal, state and local levels that may require or prohibit certain activities that affect the environment, such as:

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties;
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Water Supply & Discharge Issues. Water supply and discharge regulations that special purpose districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act ("SDWA") and the EPA's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a special purpose district's provision of water for human consumption is subject to extensive regulation as a public water system. Special purpose districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

limitations and requirements with which a special purpose district must comply may have an impact on the special purpose district's ability to obtain and maintain compliance with TPDES permits.

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 Permit, if the District's inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

In 2015, the EPA and the United States Army Corps of Engineers ("USACE") promulgated a rule known as the Clean Water Rule ("CWR") aimed at redefining "waters of the United States" over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on special purpose districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas. On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulations existing prior to the adoption of the CWR. The repeal officially became final on December 23, 2019.

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (the "NWPR") which contains a new definition of "waters of the United States." The NWPR will become effective 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

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

Changes in Tax Legislation

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

Marketability

The District has no agreement with any purchaser of the Bonds 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 of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold, or traded in the secondary market.

Continuing Compliance with Certain Covenants

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

Future Debt

Following the issuance of the Bonds, \$83,337,640 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System, \$138,386,460 principal amount of refunding bonds for the System, \$24,877,790 principal amount of bonds for the purposes of acquiring or constructing roads in the District, \$42,341,685 principal amount of refunding bonds for the purposes of acquiring or constructing roads in the District, \$5,150,000 principal amount of bonds for firefighting purposes and \$7,725,000 principal amount of refunding bonds for firefighting purposes will remain authorized but unissued, and such additional bonds as may hereafter be approved by the Board and voters of the District. The District also has the right to issue certain other additional bonds, special projects bonds, and other obligations, as described in the Bond Order. If additional bonds are issued in the future and property values have not increased proportionately, such

issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. Pursuant to the Consent Agreement (hereinafter defined), the District, Kendall Water Control & Improvement District No. 2 ("KC WCID 2") and any additional districts created to serve Esperanza, including the District, shall not issue more than \$250,000,000 principal amount of bonds, excluding any refunding bonds. See "CONSENT AGREEMENT WITH THE CITY."

Following issuance of the Bonds, the District will still owe the Developer approximately \$16,000,000 for the reimbursable expenditures advanced to date to develop land within the District. See "THE SYSTEM" and "DEVELOPMENT WITHIN THE DISTRICT."

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement. 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.

Consolidation

Under Texas Law, the District may be consolidated with other special purpose districts, with the assets and liabilities of the consolidated districts belonging to the consolidated district. No representation is made that the District will ever consolidate with one or more other districts, although no consolidation is presently contemplated by the District.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. See "TAXING PROCEDURES."

2019 Legislative Session

The 86th Texas Legislature convened on January 8, 2019 and adjourned on May 27, 2019. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda.

During the 86th Regular Legislative Session, the Texas Legislature passed Senate Bill 2 ("SB 2"), a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the District's operations and financial condition. SB 2 was signed into law by the Governor on June 12, 2019. See "TAXING PROCEDURES – Rollback of Operation and Maintenance Tax Rate."

Risks Related to Coronavirus

The spread of COVID-19, a strain of coronavirus, appears to be altering the behavior of businesses and people in a manner that is having negative effects on global and local economies. In addition, stock markets in the U.S. and globally have seen significant declines attributed to coronavirus concerns. The continued spread of COVID-19 or any other similar outbreaks in the future may materially adversely impact the Texas and national economies and, accordingly, may materially adversely impact the financial condition of the District.

Potential Impact of Natural Disaster

The District could be impacted by a natural disaster such as wide-spread fires, earthquakes, or weather events such as hurricanes, tornadoes, tropical storms, or other severe weather events that could produce high winds, heavy rains, hail, and flooding. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District's tax rates. See "TAXING PROCEDURES – Valuation of Property for Taxation."

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

Specific Flood Type Risks

The District may be subject to the following flood risks:

Ponding (or Pluvial) Flood

Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

Riverine (or Fluvial) Flood

Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

Reappraisal of Property

When requested by a local taxing unit, such as the District, the Appraisal District (hereinafter defined) is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. The District has not requested a reappraisal of property. On November 5, 2019, a Constitutional Amendment was passed and, effective January 1, 2020, individuals in an area declared to be a disaster area by the Governor may now apply for a temporary tax exemption for qualified property.

THE BONDS

General

The Bonds will bear interest from April 1, 2020 and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the cover page hereof. Interest on the Bonds will be paid on September 1, 2020, and on each March 1 and September 1 (each an "Interest Payment Date") thereafter until maturity or earlier redemption and will be calculated on the basis of a 360 day year comprised of twelve thirty-day months. The Bonds will be issued in fully registered form only, without coupons, in the principal denomination of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., nominee for The Depository Trust Company, New York, New York ("DTC"), 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 to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is Zions Bancorporation, National Association ("Paying Agent/Registrar").

Redemption Provisions

Optional Redemption

Bonds maturing on September 1, 2025, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption

The Bonds that mature on September 1 in each of the years 2026, 2028, 2030, 2032, 2035, 2039 and 2045 are terms bonds (the "Term Bonds") and shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), on September 1 in each of the years and in the principal amounts set forth in the following schedule:

\$100,000 Term Bonds Maturing on September 1, 2026	
Mandatory Redemption Date	Principal Amount
September 1, 2025	\$ 50,000
September 1, 2026 (Maturity)	50,000

\$110,000 Term Bonds Maturing on September 1, 2028	
Mandatory Redemption Date	Principal Amount
September 1, 2027	\$ 55,000
September 1, 2028 (Maturity)	55,000

\$120,000 Term Bonds Maturing on September 1, 2030	
Mandatory Redemption Date	Principal Amount
September 1, 2029	\$ 60,000
September 1, 2030 (Maturity)	60,000

\$130,000 Term Bonds Maturing on September 1, 2032	
Mandatory Redemption Date	Principal Amount
September 1, 2031	\$ 65,000
September 1, 2032 (Maturity)	65,000

\$220,000 Term Bonds Maturing on September 1, 2035	
Mandatory Redemption Date	Principal Amount
September 1, 2033	\$ 70,000
September 1, 2034	75,000
September 1, 2035 (Maturity)	75,000

\$340,000 Term Bonds Maturing on September 1, 2039	
Mandatory Redemption Date	Principal Amount
September 1, 2036	\$ 80,000
September 1, 2037	85,000
September 1, 2038	85,000
September 1, 2039 (Maturity)	90,000

\$625,000 Term Bonds Maturing on September 1, 2045	
Mandatory Redemption Date	Principal Amount
September 1, 2040	\$ 95,000
September 1, 2041	100,000
September 1, 2042	100,000
September 1, 2043	105,000
September 1, 2044	110,000
September 1, 2045 (Maturity)	115,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bonds or portions of the Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Order. The principal

amount of the Term Bonds to be mandatorily redeemed on such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System (hereinafter defined) should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the Registered Owner, except for any tax, other governmental charges, or other expenses required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new Registered Owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the Registered Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal amount for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith. See "BOOK-ENTRY-ONLY SYSTEM" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Record Date for Interest Payment

Interest on the Bonds will be paid to the Registered Owner appearing on the registration and transfer books of the Paying Agent/Registrar at the close of business on the "Record Date" (the fifteenth calendar day of the month next preceding each Interest Payment Date) and shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid, to the address of the Registered Owner recorded in the registration and transfer books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Registered Owner. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the principal payment office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of non-payment of interest on a scheduled payment date and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Registered Owner of a Bond appearing in the registration and transfer books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds, or on receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity to hold them harmless. Upon the issuance of a new bond the District may require payment of taxes, governmental charges and other expenses (including the fees and expenses of the Paying Agent/Registrar), bond printing costs and legal fees in connection with any such replacement.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar by the District. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any Paying Agent/Registrar selected by the District shall be a 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.

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 and any parity bonds hereinafter issued. The Bonds are obligations of the District and are not the obligations of the State of Texas; Kendall County, Texas; the City; or any other political subdivision or any entity other than the District.

Payment Record

The Bonds represent the third series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system to serve the District (the "System"). The District has previously issued two (2) series of unlimited tax bonds for the purpose of acquiring or constructing a System to serve the District, and one series of road bonds for the purposes of acquiring or constructing road facilities. Two principal payment have been made on the Unlimited Tax Bonds, Series 2017 and the District continues to make timely payments of interest associated with its previously issued System Bonds and road bonds.

Authority for Issuance

Voters in the District have authorized a total of \$92,257,640 principal amount of bonds for the purpose of acquiring or constructing the System to serve the District, \$138,386,460 principal amount of refunding bonds for the System, \$28,227,790 principal amount of bonds for the purpose of acquiring or constructing roads in the District, \$42,341,685 principal amount of refunding bonds for the purpose of acquiring or constructing roads in the District, \$5,150,000 principal amount of bonds for firefighting purposes and \$7,725,000 principal amount of refunding bonds for firefighting purposes. The District also has the right to issue certain other additional bonds, special projects bonds, and other obligations, as described in the Bond Order, and such additional bonds as may hereafter be authorized by the Board and voters of the District. Pursuant to the Consent Agreement, the District and any subsequently created districts shall not issue more than \$250,000,000 principal amount of bonds, excluding any refunding bonds.

The Bonds are issued pursuant to the Bond Order; an election held on November 8, 2011; Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapters 49 and 51, Texas Water Code, as amended.

Issuance of Additional Debt

Following the issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$83,337,640 principal amount of unlimited tax bonds for the System, \$138,386,460 principal amount of refunding bonds for the System, \$24,877,790 principal amount of bonds for the purpose of acquiring or constructing roads in the District, \$42,341,685 principal amount of refunding bonds for the purpose of acquiring or constructing roads in the District, \$5,150,000 principal amount of bonds for firefighting purposes, and \$7,725,000 principal amount of refunding bonds for firefighting purposes and such additional bonds as may hereafter be authorized by the Board and voters of the District. Pursuant to the Consent Agreement, the District and any subsequently created districts created to serve Esperanza shall not issue more than \$250,000,000 principal amount of bonds, excluding any refunding bonds, unless specifically approved by the City. See "CONSENT AGREEMENT WITH THE CITY."

Following the issuance of the Bonds, the District will owe the Developer approximately \$16,000,000 in reimbursables for District projects, the funds for which were advanced by the Developer.

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the District's consulting engineer, Kimley-Horn and Associates, Inc. (the "Engineer"), following the issuance of the Bonds, the District will have adequate authorized but unissued bonds to repay the Developer the remaining amounts owed for the existing utility facilities and to finance the extension of the System to serve the remaining undeveloped land and roads within the District. See "DEVELOPMENT WITHIN THE DISTRICT," "THE SYSTEM," and "RISK FACTORS - Future Debt."

Outstanding Bonds

The Bonds constitute the third series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the System within the District. The District previously issued two series of unlimited tax bonds for the purpose of acquiring or constructing the System to serve the District: \$4,000,000 Unlimited Tax Bonds, Series 2017 and \$3,090,000 Unlimited Tax Bonds, Series 2018. The District previously issued one series of unlimited tax bonds for the purpose of constructing a road system to serve the District: \$3,350,000 Unlimited Tax Road Bonds, Series 2019. Of such series of bonds previously issued, \$10,255,000 principal amount remains outstanding as of January 30, 2020 (the "Outstanding Bonds"). See "THE BONDS - Outstanding Bonds."

Registered Owners' Remedies

Texas law and the Bond Order provide that in the event the District defaults in the payment of the principal of or the interest on any of the Bonds when due, fails to make payments required by the Bond Order into the debt service fund or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board to observe and perform any covenant, obligation, or condition prescribed by the Bond Order. Such right is in addition to other rights the Registered Owners of the Bonds may be provided by the laws of the State of Texas.

Except for mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners of the Bonds. There is no provision for 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 public purpose property. Further, the Registered Owners could not 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. §§ 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by 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 negotiation is impracticable. Under Texas law, a water control and improvement district such as the District must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

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, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state; an agency; or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which 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.

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; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the

Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

- (a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.
- (b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.

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

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

BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants (hereinafter defined), (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 (hereinafter defined), 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 required by an authorized representative of DTC. One fully-registered security certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

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

the Direct Participant(s), the "Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Direct and Indirect Participants are on file with the SEC. 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 holder of ownership interest of each actual purchase of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners (the "Book-Entry-Only System"). Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry-Only 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 does not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

The District may decide to discontinue use of the Book-Entry-Only System through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in the section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that District believes to be reliable, but District takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds of the Bonds will be used to (i) reimburse the Developer for operating costs, (ii) pay capitalized interest on the Bonds, developer interest, and bond issuance costs, and (iii) fund the Master District connection charges for water, wastewater, and drainage facilities serving the District.

A. CONSTRUCTION COSTS

District Items

A. Master District Connection Charges \$ 1,264,270

TOTAL CONSTRUCTION COSTS: \$ 1,264,270

B. NON-CONSTRUCTION COSTS

A. Legal Fees \$ 45,750

B. Fiscal Agent Fees 36,600

C. Interest 38,888

a. Capitalized Interest 38,888

b. Developer Interest 267,403

D. Bond Discount 48,152

E. Bond Issuance Expenses 32,988

F. Bond Application Report Costs 40,000

G. Operating Costs 20,000

H. Market Study 19,750

I. Attorney General Fee 1,830

J. TCEQ Bond Issuance Fee 4,575

K. Contingency (a) 9,794

TOTAL NON-CONSTRUCTION COSTS: \$ 565,730

TOTAL BOND ISSUE REQUIREMENT: \$ 1,830,000

(a) Represents the difference between the estimated and actual costs of the discount on the Bonds.

The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities; however, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

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THE DISTRICT

General

The District was created pursuant to an election held on May 9, 2009 dividing KC WCID 2 into KC WCID 2 and the District. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to water control & improvement districts, including particularly Chapters 49 and 51, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; the control and diversion of storm water; and roads. The District may also provide solid waste collection and disposal service and operate, maintain and construct recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the district's voters and the TCEQ. The District has obtained approval from voters and the TCEQ to operate a fire department but does not currently do so.

Description

The District, a political subdivision of the State of Texas, is located in Kendall County, Texas. The District contains approximately 467.832 acres. The District is located entirely within the ETJ of the City about two (2) miles east of the City. The District is east of Interstate 10 and lies generally north of the intersection of Highway 46 and Amman Road. The District is part of an approximately 1,243-acre master-planned community known as "Esperanza."

Management of the District

- Board of Directors -

The District is governed by a board, consisting of five directors, which has control over and management and supervision of all affairs of the District (the "Board"). Directors serve staggered four year terms, with elections held in November of each even numbered year. All of the directors own property in the District. The present members and officers of the Board listed below:

<u>Name</u>	<u>Position</u>	<u>Term Expires November</u>
Kurtis Rudkin	President	2020
Sherry Christofilis	Vice President	2020
Jim Bruner	Secretary	2022
Beth G. Coyle	Assistant Secretary	2020
<i>Vacant</i>	Assistant Secretary	

- Consultants -

Tax Assessor/Collector - The District's Tax Assessor/Collector is Utility Tax Service, LLC (the "Tax Assessor/Collector"). The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Kendall Appraisal District and bills and collects such levy.

Bookkeeper - The District's bookkeeper is L&S District Services, LLC.

Auditor - As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. A copy of the District's audit prepared by McCall Gibson Swedlund Barfoot PLLC, for the fiscal year ended October 31, 2019, is included as "APPENDIX A" to this Official Statement.

Engineer - The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Kimley-Horn and Associates.

Bond & General Counsel - The District has engaged Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, as Bond Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale and delivery of the Bonds. Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas also serves as the District's general counsel.

Disclosure Counsel - Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as Disclosure Counsel in connection with the issuance of the District's Bonds. The fees of Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Financial Advisor - Robert W. Baird & Co. Incorporated is employed as financial advisor (the "Financial Advisor") to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is employed by the District and has participated in the preparation of the Official Statement, however, the Financial Advisor is not obligated to undertake, and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement that has been supplied or provided by third-parties.

DEVELOPMENT AGREEMENT WITH THE CITY

The City provides water supply and wastewater services to the District, pursuant to that certain Development Agreement between MA Boerne Partners, LP, the prior developer, and KC WCID 2, effective as of February 12, 2008, as amended by that certain Modification, Ratification and Extension of the Development Agreement and District Consent Agreement, adding the District as a party, dated February 5, 2014, the Second Amendment to Development Agreement and District Consent Agreement and First Amendment to the Strategic Partnership Agreement, dated September 17, 2014, the Third Amendment to Development Agreement and District Consent Agreement dated February 18, 2016, and the Fourth Amendment to Development Agreement and District Consent Agreement dated October 17, 2017 (collectively, the "Development Agreement"). Certain provisions of the Development Agreement concerning the provision of water and/or sewer service to the property within the District have been assigned from the Developer to the District.

Pursuant to the Development Agreement, the City shall have and exercise exclusive jurisdiction over the subdivision and platting of the property within the District and the design, construction, installation, and inspection of water, sewer, drainage, roadway, and other public infrastructure (the "Public Infrastructure") to serve the property within the District. The Developer and/or District are responsible for designing, acquiring and constructing for the benefit of, and for ultimate conveyance to the City, the water and sewer Public Infrastructure. The City agrees to provide water supply services and wastewater treatment services to the District. The District, at its sole expense, shall provide, or cause to be provided, police services, within the District. Fire service shall be provided by the City to the property within the District. EMS service shall be provided by Kendall County to the property within the District.

Police and Fire Services

Prior to the date upon which any developer, owner, or builder submits an application for the issuance of a certificate of occupancy for the 1,240th building permit (as defined in the Development Agreement), the Developer, at its sole expense, shall dedicate to the City a Municipal Annex, shall have substantially completed construction of the Fire Services Facility and paid the City \$500,000 for the purchase of a Fire Pumper Truck (all terms defined in the Development Agreement).

The District or one or more property owners associations shall pay the City for such service on a "per call charge" basis as reasonably determined based upon the time, personnel, equipment, and fuel costs applicable to each call.

The Public Infrastructure

The Development Agreement provides that the Public Infrastructure will be designed and constructed in accordance with the requirements and criteria of the TCEQ, the City, and all other federal, state, and local governmental authorities having jurisdiction over the construction of the Public Infrastructure. The City shall provide retail water and sewer service to the property within the District. Retail water and sewer customers within the District shall pay the applicable water and sewer rates for customers outside the corporate limits of the City.

Water Public Infrastructure: The City shall be the retail provider of water and reclaimed water to be used for irrigation purposes to the District, provided that the rights of the Developer under the GBRA Agreement (as defined in the Development Agreement) have been assigned to the City. Such rights under the GBRA Agreement have been assigned from the Developer to the City.

At no cost to the City, the Developer will direct the District to cause the following to occur with respect to the water Public Infrastructure: (1) design, acquire easements for, construct, and tender for dedication to and acceptance by the City, a 12-inch water line located in the State Highway 46 right-of-way and a 10-inch water line in the Bentwood subdivision; (2) prior to the issuance of a building permit for the 90th Dwelling in Phase 2, design, acquire easements for, construct, and tender for dedication to and acceptance by the City, the elevated water storage/system pressurization tank, and multiple pump booster station; (3) prior to the issuance of a certificate of occupancy for the first dwelling in Phase 1, design, acquire easements for, construct, and tender for dedication to and acceptance by the City, a reclaimed water storage tank; and (4) prior to the issuance of a building permit for the first dwelling in Phase 2, design, acquire easements for, construct and tender for dedication to and acceptance by the City, an additional reclaimed water ground storage tank and multiple pump booster station. All of the above described improvements required for Phase 1 and Phase 2A have been constructed and accepted by the City.

Sewer Public Infrastructure: The City shall be the retail provider of sewer to the District and agrees to expand its wastewater treatment plant to provide treatment. To satisfy future demands, the City will increase its largest wastewater treatment plant from 1.4 Million Gallons per Day (MGD) by an additional 3.8 MGD, for a total of 5.2 MGD, to serve the anticipated number of total connections, which is sufficient to provide treatment capacity for the 2,736 SLUE connections at full development build-out. In addition, the City has completed all improvements necessary to connect the Wastewater Treatment Plant to Browns Creek Sewer Extension (as defined below). The Developer has paid the City approximately \$2,086,370 for such wastewater treatment capacity and is not liable for any impact fees for such capacity.

At no cost to the City, the Developer will direct the District to cause the following to occur with respect to the sewer Public Infrastructure: (1) prior to the issuance of the first certificate of occupancy for any Dwelling Unit, design, acquire easements for, construct, and tender for dedication to and acceptance by the City, the sewer facility designated as "Browns Creek Sewer

Extension”; and (2) design, acquire easements for, construct, and tender for dedication to and acceptance by the City in accordance with the Subdivision Ordinance, those additional sewer Public Infrastructure items required to serve the District, as typically required elsewhere in the City. The Browns Creek Sewer Extension and all improvements for Phase 1 and Phase 2 are complete and have been accepted by the City.

Roadway Public Infrastructure: All major roads within the District must be consistent with the City’s Thoroughfare Plan. The Developer is required to pay up to \$2,300,000 to the City for the widening of Herff Road/River Road. Such payment has been made and completion of such project by the City and Kendall County has occurred.

Ownership, Operation, and Maintenance of the Public Infrastructure

If dedicated to and accepted by the City, the City shall at all times maintain the Public Infrastructure, or cause such Public Infrastructure to be maintained, in good condition and working order in compliance with all applicable laws and ordinances and all applicable regulations, rules, policies, standards, and orders of any governmental entity with jurisdiction over same. To the extent the City accepts and utilizes the water and sewer Public Infrastructure, the City shall operate the water and sewer Public Infrastructure serving the District and will use the Public Infrastructure to provide service to all customers within the District. To the extent none of the City, Kendall County or the State of Texas accepts roadway Public Infrastructure within the District, then such roadway Public Infrastructure shall be maintained to standard City maintenance standards by the District. To the extent roadway Public Infrastructure outside the District is not accepted by the applicable jurisdiction therefor, the District shall have the right, but not the obligation, to maintain such roadway Public Infrastructure. To the extent none of the City, Kendall County or the State of Texas accepts drainage Public Infrastructure within the District, such drainage Public Infrastructure shall be maintained by the District.

CONSENT AGREEMENT WITH THE CITY

In connection with the creation of KC WCID 2, the City, the Developer and KC WCID 2 entered into an “Interlocal Agreement Concerning the Creation and Operation of Kendall County Water Control & Improvement District No. 2,” dated February 23, 2008, as amended by the Development Agreement (collectively, the “Consent Agreement”). In the Consent Agreement, which amends and restates a similar consent agreement with a prior owner of the property upon which the District was formed, the City consented to: the creation of the District; the District undertaking certain road projects within the District; the calling of an election to create the District and carry out its operations; and the division of KC WCID 2 into two or more separate water control and improvement districts.

In addition, the City agreed that the City would not annex the District any earlier than the first to occur of: (1) completion of infrastructure to serve 95% development of the District and the issuance by the District of bonds to reimburse the cost of such water, wastewater, drainage, roadway and other infrastructure improvements installed or constructed to serve the District; (2) fifteen (15) years after the first residential plat in the District is recorded in the Official Records of Kendall County, Texas; or (3) the dissolution of the District (other than as a result of annexation by the City).

Furthermore, in consideration for the City’s consent to create KC WCID 2 (or any subsequently created district) and issue unlimited tax bonds for public infrastructure, KC WCID 2 agrees that it and any subsequently created districts serving Esperanza shall not issue more than an aggregate of \$250,000,000 principal amount of bonds.

STRATEGIC PARTNERSHIP AGREEMENT WITH THE CITY

The City and KC WCID 2 entered into a “Strategic Partnership Agreement” dated effective February 12, 2008 and that certain First Amendment to the Strategic Partnership Agreement dated September 22, 2014 (collectively the “Strategic Partnership Agreement”). In the Strategic Partnership Agreement, the City annexed KC WCID 2, including the District, for the sole and exclusive purpose of imposing and collecting sales and use taxes authorized by Chapter 321 of the Texas Tax Code, including Type A and Type B economic development corporation sales tax, within such area. The City is not required to provide any municipal services to Esperanza. The City retains all sales and use tax revenue collected within KC WCID 2, the District and any subsequently created districts serving Esperanza.

DEVELOPER AND PRINCIPAL LANDOWNER

The Role of a Developer

In general, the activities of a developer in a water control and improvement district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone and electric service) and selling improved lots and commercial reserves to builders, developer, or other third parties. In certain instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater and drainage facilities in a water control and improvement district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of its property within a water control and improvement district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer’s

right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a special purpose district during the development phase of the property.

Developer and Principal Landowner

The developers and principal owners of land within the District are Lookout Boerne Holdings, LP, a Texas limited partnership and Lookout Development Group, L.P., a Texas limited partnership ("LDG") (collectively the "Developer"). The Developer is a privately-held real estate company based in Houston, Texas, with land development operations in various central Texas cities, including Boerne, Leander, Liberty Hill and Waxahachie. Both principals of the Developer each have more than 30 years of experience in his respective area of expertise. LDG and its affiliates have been responsible for the acquisition, entitlement and development of over 10,000 acres consisting of approximately 8,000 residential lots.

Development Financing

Except for the completed serviced lots under option lot contracts to builders, all land within the District and its Development Agreement serve as collateral for a loan from Prosperity Bank in the amount of \$16,837,600 effective as of June 16, 2019. The current outstanding balance on the loan is \$15,798,600 as of February 12, 2020. The loan has an 11-year term and an interest rate of 6.50%. According to the Developer, they are performing and have paid in full all current obligations on the loan.

Lot Sales Contracts

The Developer has sold 163 of the 169 lots under option lot sales contracts in the initial planning unit of Esperanza ("Esperanza Phase 1" or "Phase 1") to the following homebuilders: Scott Felder Homes, Monticello Custom Homes, Sitterle Homes, Coventry Homes/MHI and Hollaway Custom Homes (the "Phase 1 Homebuilders"). As of December 31, 2019, the Phase 1 Homebuilders have closed on 163 of the 163 lots under contract.

All 46 lots in the second planning unit of Esperanza ("Esperanza Phase 2A" or "Phase 2A") are being sold through option lot sales contracts with Scott Felder Homes and Coventry Homes/MHI (the "Phase 2A Homebuilders"). The Phase 2A Homebuilders have contracted to purchase all 46 lots in Phase 2A that were delivered in late April 2017. As of December 31, 2019, the Phase 2A Homebuilders have closed on 46 of the 46 lots under contract.

All 106 lots in the third planning unit of Esperanza ("Esperanza Phases 1B, 2B and 2D" or "Phases 1B, 2B and 2D") are being sold through option contracts with Scott Felder Homes, Monticello Custom Homes, and Coventry Homes/MHI (the "Phases 1B, 2B and 2D Homebuilders"). The Phases 1B, 2B and 2D Homebuilders have contracted to purchase all 106 lots in Phases 1B, 2B and 2D that were delivered in the second quarter of 2019. As of December 31, 2019, the Phases 1B, 2B, and 2D Homebuilders have closed on 70 of the 106 lots under contract.

All 164 lots in the next planning unit of Esperanza ("Esperanza Phase 1C, 2C and 2E" or "Phases 1C, 2C, and 2E") are being sold through option contracts with Scott Felder Homes, Monticello Custom Homes and Coventry Home/MHI (the "Phases 1C, 2C, 2E Homebuilders"). The Phases 1C, 2C and 2E Homebuilders have contracted to purchase all 164 lots in Phases 1C, 2C and 2E that are expected to be delivered in the third quarter of 2020.

According to the Developer, currently all of the Phase 1, Phase 2A, and Phases 1B, 2B and 2D Homebuilders are in compliance with their respective lot sales contracts.

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DEVELOPMENT WITHIN THE DISTRICT

Current Status of Development

Land within the District has been developed as the single-family subdivision of Esperanza, Phases 1, 2A, 1B, 2B and 2D (aggregating approximately 177.69 acres and 322 single-family lots) and the Esperanza Amenity Center (approximately 17.08 acres). In addition, an elementary school has been constructed on approximately 20.01 acres of land. The elementary school opened in August of 2019 and the Esperanza Amenity Center opened on August 1, 2019. As of December 31, 2019, the District consisted of 185 completed homes, 5 completed model homes, 45 homes under construction, and 87 vacant developed lots. Additionally, there are 164 lots under construction on approximately 56.78 acres. The remaining land within the District consists of approximately 155.89 undeveloped but developable acres and approximately 40.38 undevelopable acres of open space.

	Acres	Platted Lots	Homes		Model Homes (a)	Vacant Lots
			Completed	Under Construction		
Esperanza:						
“Hagee” House	1.79	1	1	0	0	0
Phase 1	120.51	169	133	11	5	20
Phase 2A	24.82	46	42	0	0	4
Phase 1B	9.74	29	1	13	0	15
Phase 2B	9.85	33	8	8	0	17
Phase 2D	<u>10.98</u>	<u>44</u>	<u>0</u>	<u>13</u>	<u>0</u>	<u>31</u>
Total:	177.69	322	185 (b)	45	5	87
Elementary School	20.01					
<u>Amenity Center</u>	<u>17.08</u>					
Total:	37.09					
Phase 1C	13.50	34				
Phase 2C	8.81	22				
<u>Phase 2E</u>	<u>34.47</u>	<u>108</u>				
Total:	56.78	164				
Undeveloped Acreage	155.89					
<u>Undevelopable Acreage</u>	<u>40.38</u>					
Total:	196.27					
Total Acreage and Platted Lots:	<u>467.83</u>	486				

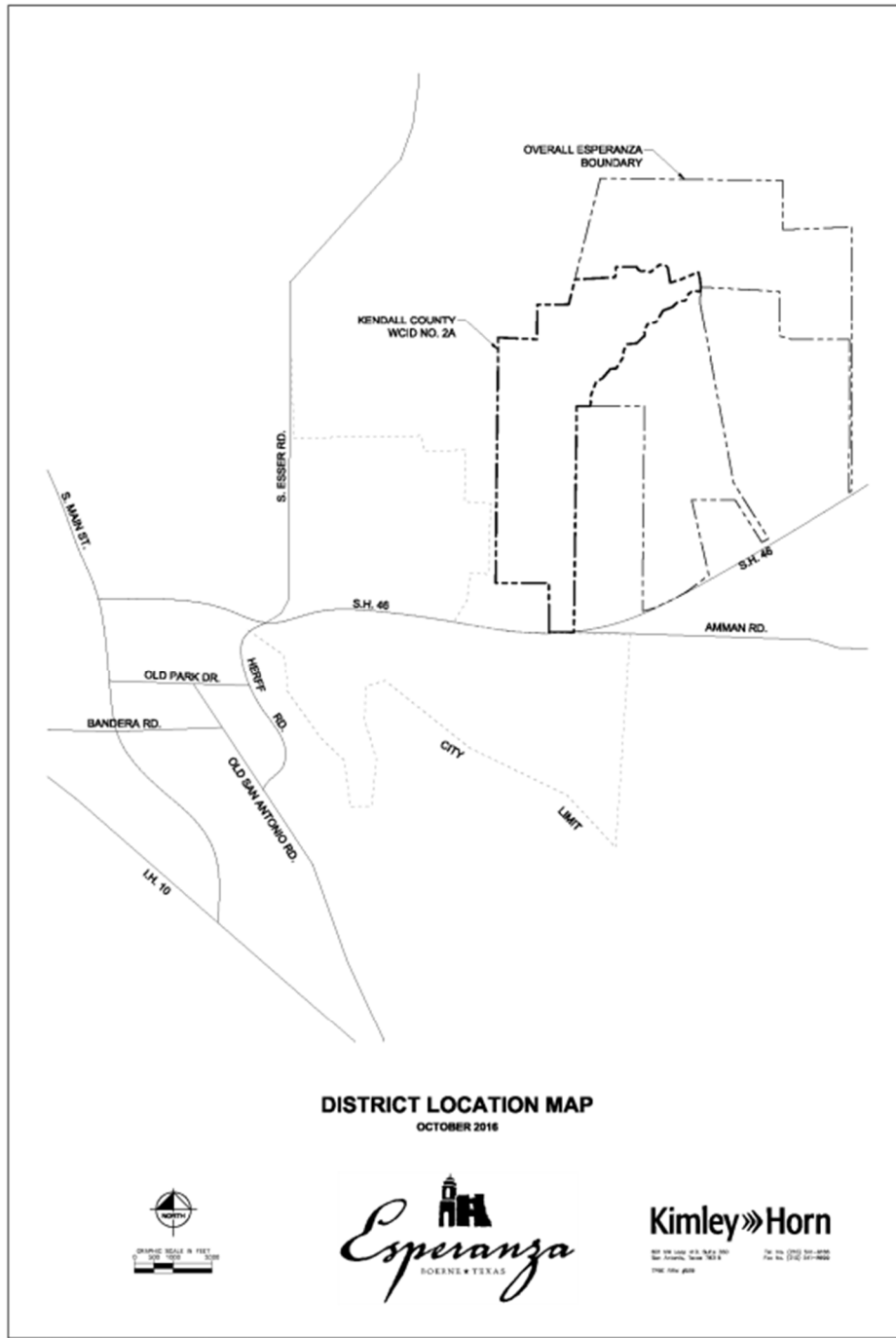
(a) Two (2) of the model homes have been sold to homeowners and are currently being leased back to the homebuilders.

(b) According to the developer, there were 175 occupied homes (including 5 models) as of December 31, 2019.

Homebuilders

Homebuilders active in the District are Scott Felder Homes, Monticello Custom Homes, Coventry Homes/MHI, Sitterle Homes and Hollaway Custom Homes. Homes are being marketed from \$295,000 to over \$1,000,000 and range in size from 1,611 square feet to over 4,000 square feet.

LOCATION MAP



AERIAL PHOTOGRAPHS OF THE DISTRICT

(August 2019)



AERIAL PHOTOGRAPHS OF THE DISTRICT

(February 2020)



AERIAL PHOTOGRAPHS OF THE DISTRICT

(February 2020)



TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, in an amount not to exceed \$1.00 per \$100 of assessed valuation for operation and maintenance purposes. The Board levied a 2019 tax rate of \$0.20 per \$100 of assessed valuation for operation and maintenance purposes.

Tax Rate Limitation

Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	\$1.00 per \$100 of Assessed Valuation.

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all of any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal and interest on the Bonds. The District levied a 2019 tax rate of \$0.75 per \$100 of assessed valuation for water, sewer, drainage and road debt service purposes.

Maintenance and Operations Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. At an election held within the District on November 8, 2011, the Board was authorized to levy such a maintenance and operations tax in an amount not to exceed \$1.00 per \$100 assessed valuation. The District levied a maintenance and operations tax for 2019 at the rate of \$0.20 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds.

Tax Exemption

As discussed in the section entitled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation.

Additional Penalties

The District has authorized the Tax Assessor/Collector to contract with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty of 20% of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than August 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

Historical Tax Collections

The following table illustrates the collection history of the District for the tax years 2015-2019.

Tax Year	Assessed Valuation	Tax Rate/ \$100 (a)	Adjusted Levy	% of Collections Current Year
2015	\$ 5,587,570	\$0.9500	\$ 53,082	100.00 %
2016	4,206,940	0.9500	39,966	100.00
2017	27,784,590	0.9500	263,954	100.00
2018	52,084,692	0.9500	494,805	99.84 (b)
2019	77,677,179 (c)	0.9500	737,933	95.28 (b)

(a) See "Tax Rate Distribution" below.

(b) In process of collection. Percent collected as of March 17, 2020.

(c) Excludes \$40,000, which represents 80% of the uncertified value.

Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$0.75	\$0.75	\$0.84	\$0.00	\$0.00
Maintenance	0.20	0.20	0.11	0.95	0.95
Total	<u>\$0.95</u>	<u>\$0.95</u>	<u>\$0.95</u>	<u>\$0.95</u>	<u>\$0.95</u>

Analysis of Tax Base

The following table illustrates the District's total assessed value in the tax years 2015-2019, by type of property.

Type of Property	2019 Assessed Valuation (a)	2018 Assessed Valuation	2017 Assessed Valuation	2016 Assessed Valuation (b)	2015 Assessed Valuation
Land	\$29,616,340	\$18,589,230	\$14,258,950	\$2,948,170	\$5,074,290
Improvements	55,068,990	36,018,490	14,832,710	1,666,490	513,280
Personal Property	317,800	362,410	0	0	0
Exemption	<u>(7,325,951)</u>	<u>(2,885,438)</u>	<u>(1,295,070)</u>	<u>(407,720)</u>	<u>0</u>
Total	<u>\$77,677,179</u>	<u>\$52,084,692</u>	<u>\$27,784,590</u>	<u>\$4,206,940</u>	<u>\$5,587,570</u>

(a) Excludes \$40,000, which represents 80% of the uncertified value.

(b) The approximately \$2 million decrease in value occurred as a result of the Appraisal District's (hereinafter defined) valuation method when acreage is divided into lots. When this occurs, the Appraisal District divides the prior undivided land value evenly among the lots and applies a standard 33% reduction.

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of February 5, 2020:

Taxpayer	Type of Property	Assessed Valuation 2019 Tax Roll	Percent of 2019 Tax Roll
Lookout Development Group, LP	Land	\$ 6,926,410	8.92%
Scott Felder Homes LLC	Land Improvements	2,845,540	3.66%
Sitterle Homes LTD	Land Improvements	2,521,790	3.25%
MHI Partnership Ltd.	Land Improvements	2,337,290	3.01%
Hollaway Custom Homes Inc.	Land Improvements	1,185,910	1.53%
Monticello Custom Homes LP	Land Improvements	1,159,130	1.49%
Homeowner	Land Improvements	866,670	1.12%
Homeowner	Land Improvements	785,070	1.01%
Homeowner	Land Improvements	685,000	0.88%
Homeowner	Land Improvements	639,380	0.82%
Total		\$ 19,952,190	25.69%

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2019 Certified Taxable Assessed Valuation or the 2020 Estimate of Value. The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirements (2020-2045)	\$ 722,695
Combined Tax Rate of \$0.98 on the 2019 Certified Taxable Assessed Valuation (\$77,717,179) produces...	\$ 723,547
Combined Tax Rate of \$0.70 on the 2020 Estimate of Value (\$110,183,480) produces	\$ 732,720
Maximum Annual Debt Service Requirement (2042)	\$ 814,950
Combined Tax Rate of \$1.11 on the 2019 Certified Taxable Assessed Valuation (\$77,717,179) produces...	\$ 819,528
Combined Tax Rate of \$0.78 on the 2020 Estimate of Value (\$110,183,480) produces	\$ 816,460

Estimated Overlapping Taxes

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

Set forth below is a compilation of all 2019 taxes levied by such jurisdictions per \$100 of assessed valuation. The table below does not include any future debt service tax rate that may be levied as a result of the issuance of the Bonds (see “TAX DATA – Debt Service Tax”). Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

<u>Taxing Jurisdiction</u>	2019 Tax Rate Per \$100 of Assessed Value
The District	\$0.95000
Kendall County	0.41270
Cow Creek Groundwater Conservation District	0.00500
<u>Boerne Independent School District</u>	<u>1.28400</u>
Total 2019 Overlapping Tax Rate for the District	<u>\$2.65170</u>

THE SYSTEM

General

The water, wastewater and drainage facilities, the purchase, acquisition and construction of which have been financed by the District with the proceeds of the Bonds, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including among others, the TCEQ. According to the Engineer, the design of all such facilities has been approved by all governmental agencies, which have jurisdiction over the District.

Description of the System

- Water Supply and Distribution -

Pursuant to the Development Agreement, the City is the retail provider of water service, including reclaimed water to District residents and the entire Esperanza development. Treated water supply is surface water sourced from Canyon Reservoir under contract with the Guadalupe-Blanco River Authority (the “GBRA”). The GBRA provides regional long-term treatment and delivery of surface water via the Western Canyon Project to portions of Kendall, Comal and Bexar counties. Pursuant to the “Agreement Between City of Boerne, Texas and Guadalupe-Blanco River Authority” dated February 22, 2000, as amended, and the “Preliminary Agreement Regarding the MA Boerne Partners Service Area Between MA Boerne Partners, LP (Owner), and Guadalupe-Blanco River Authority (GBRA)” dated February 21, 2007, the GBRA has allocated the City a raw water reservation of 3,611 acre-feet per year, of which 1,250 acre-feet per year is exclusive for the Esperanza development. The GBRA provides the City treated water which is then provided to Esperanza. The Master District (as defined in “—Master District Contract” below) has constructed an offsite 12-inch water transmission line along Highway 46 on the District’s southern boundary, and a 10-inch water transmission line from the District’s western boundary both of which tie into the City’s water distribution system. The reserved raw water capacity of 1,250 acre-feet per year, will allow the City to provide sufficient treated water to meet the build-out demands of the District and Esperanza development.

The City also provides non-potable water to the District for irrigation purposes. The Master District has constructed an off-site 10-inch reclaimed water line which connects to the City’s Wastewater Treatment and Recycling Center Wastewater Treatment Plant.

Upon project completion and acceptance by the City, the Master District and/or the District conveys ownership of the Esperanza water facilities to the City for operation and maintenance.

- Wastewater Treatment and Conveyance System -

Pursuant to the Development Agreement, the City will be the retail provider of wastewater service to District residents and the entire Esperanza development through build-out. Wastewater treatment is provided by the City’s Wastewater Treatment and Recycling Center Wastewater Treatment Plant. The 1.4 million gallons per day (“MGD”) plant is owned and operated by the City, and is currently permitted with an ultimate capacity of 1.4 MGD. District wastewater is collected internally through various gravity and lift station/force mains and is conveyed from the District boundaries southward via an offsite 18-inch gravity wastewater line (constructed by the Master District) which ties into the City’s wastewater collection system.

Upon project completion and acceptance by the City, the Master District and/or the District conveys ownership of the Esperanza wastewater facilities to the City for operation and maintenance.

- Storm-Water Drainage Facilities -

Storm water in the district is generally carried adjacent to Browns Creek and ultimately flows to Cibolo Creek. All drainage elements were designed according to the requirements of the City of Boerne and were approved by the City prior to construction.

Approximately 31.6 acres in the District lie in the 100-year floodplain. No development will occur within the 100-year floodplain.

Master District Contract

KC WCID 2 has agreed to assume the responsibility of becoming the coordinating district for provision of certain regional services to the Esperanza community (the "Service Area"), which currently consists of two districts, KC WCID 2 and the District (collectively, the "Participant Districts"). KC WCID 2 when acting in this capacity is considered the master district (the "Master District").

The Participant Districts and the Master District have entered into the Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer, Storm Sewer Facilities, Roads, and Fire Protection Facilities, dated February 10, 2014, as amended, by certain First Amendment to Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer, Storm Sewer Facilities, Roads, and Fire Protection Facilities, dated February 9, 2017 (the "Master District Contract"). Under the Master District Contract, the Master District is obligated to provide water, sanitary sewer and storm sewer facilities ("WS&D Facilities"), roads, and fire protection facilities, necessary to serve the District and any other Participant District. To provide funds necessary to acquire the needed facilities, the District and the other Participant District are required under the contract to pay connection charges to the Master District in amounts sufficient to enable the Master District to provide such services. The connection charge, which is subject to recalculation periodically, is determined by dividing the current estimated costs of all the aforementioned regional facilities to be constructed, minus the payments which have previously been received for connections purchased, by the anticipated number of connections remaining to be purchased, within the Service Area. Between recalculation dates, the ENR Construction Cost Index may be applied as an escalator to the connection charge. In lieu of payment of connection charges, the District, with the approval of the Master District, may construct facilities for the Master District which after completion are conveyed to the Master District as a credit against connection charges.

The total current master district connection fee consists of \$20,588,039 for the Master District's Water System, \$11,211,410 for the Master District's Sanitary Sewer System, \$6,595,066 for the Master District's Storm Sewer System and \$3,146,437 for the Master District's Fire Protection System, totaling \$41,540,952 for approximately 2,300 connections (all terms as defined in the Master District Contract).

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Historical Operations of the System

The following is a summary of the District’s general operating fund for the previous four fiscal years. The figures for the fiscal years ended October 2016 through October 2019 were obtained from the District’s annual financial reports. See “APPENDIX A.” The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

	Fiscal Year Ended October			
	2019	2018	2017	2016
Revenues				
Property taxes	\$ 104,851	\$ 29,853	\$ 39,826	\$ 53,082
Investment and Miscellaneous Revenues	-	-	3	5
Total Revenues	\$ 104,851	\$ 29,853	\$ 39,829	\$ 53,087
Expenditures				
Service Operations:				
Professional Fees	\$ 44,381	\$ 42,472	\$ 50,040	\$ 30,458
Contracted Services	6,189	6,276	3,873	6,978
Administrative and Other	7,188	5,912	8,189	5,499
Total Expenditures:	\$ 57,758	\$ 54,660	\$ 62,102	\$ 42,935
NET REVENUES (Deficit)	\$ 47,093	\$ (24,807)	\$ (22,273)	\$ 10,152
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	\$ -	-	\$ 4,000	\$ -
Developer Advances	-	20,000	-	2,500
Total Other Financing Sources:	\$ -	\$ 20,000	\$ 4,000	\$ 2,500
Beginning fund balance	\$ (6,758)	\$ (1,951)	\$ 16,322	\$ 3,670
Ending fund balance	\$ 40,335	\$ (6,758)	\$ (1,951)	\$ 16,322

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DISTRICT DEBT

2019 Certified Taxable Assessed Valuation	\$ 77,717,179	(a)
Estimate of Value as of January 1, 2020.....	\$ 110,183,480	(b)
Direct Debt:		
The Outstanding Bonds	\$ 10,225,000	
The Bonds.....	<u>\$ 1,830,000</u>	
Total.....	\$ 12,085,000	
Estimated Overlapping Debt.....	<u>\$ 3,601,894</u>	(c)
Total Direct and Estimated Overlapping Debt	<u>\$ 15,686,894</u>	(c)
Direct Debt Ratios:		
As a percentage of 2019 Certified Taxable Assessed Valuation	15.55 %	
As a percentage of 2020 Estimate of Value	10.97 %	
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of 2019 Certified Taxable Assessed Valuation	20.18 %	
As a percentage of 2020 Estimate of Value	14.24 %	
General Operating Fund (as of February 26, 2020).....	\$ 161,074	
Capital Projects Fund (as of February 26, 2020)	\$ 594	
Road Debt Service Fund (as of February 26, 2020).....	\$ 300,663	(d)
System Debt Service Fund (as of February 26, 2020).....	\$ 684,296	(e)
2019 District Tax Rate per \$100 of Assessed Valuation		
System Debt Service.....	\$0.58	(f)
Road Debt Service.....	\$0.17	
Maintenance.....	<u>\$0.20</u>	
Total.....	\$0.95	
Average Annual Debt Service Requirements		
on the Outstanding Bonds and the Bonds (2020-2045).....	\$ 722,695	
Maximum Annual Debt Service Requirement		
on the Outstanding Bonds and the Bonds (2042)	\$ 814,950	
Combined Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements the Bonds (2020-2045) at 95% Tax Collections		
Based Upon 2019 Certified Taxable Assessed Valuation (\$77,717,179)	\$0.98	
Based Upon the 2020 Estimate of Value (\$110,183,480)	\$0.70	
Combined Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement on the Bonds (2042) at 95% Tax Collections		
Based Upon 2019 Certified Taxable Assessed Valuation (\$77,717,179)	\$1.11	
Based Upon the 2020 Estimate of Value (\$110,183,480)	\$0.78	
Number of Single-Family Homes (including 45 homes in various stages of construction) as of December 31, 2019.....	235	

- (a) As certified by the Appraisal District. All property located in the District is valued on the tax rolls by the Appraisal District at 100% of estimated market value as of January 1 of each year. Includes \$40,000, which represents 80% of uncertified value.
- (b) Provided by the Appraisal District as the estimate value as of January 1, 2020. This value represents the estimated determination of the taxable value in the District as of January 1, 2020. No taxes will be levied on this estimate of value, which is subject to protest by the landowners. The value will be certified by the Appraisal Review Board and taxes will be levied on the certified value. See "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement."
- (d) Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the Road Debt Service Fund.
- (e) Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the System Debt Service Fund. In addition, capitalized interest will be deposited into the System Debt Service Fund upon delivery of the Bonds.
- (f) The District levied a debt service tax rate of \$0.58 for System purposes for the 2019 tax year. The District anticipates levying a debt service tax rate for System purposes for the 2020 tax year.

Debt Service Requirements

The following sets forth the total debt service on the Outstanding Bonds and the principal and interest requirements on the Bonds. This schedule does not reflect the fact that capitalized interest will be capitalized from the proceeds of the sale of the Bonds to pay debt service on the Bonds.

Calendar Year	Outstanding Debt Service	The Bonds		Total Debt Service
		Principal	Interest	
2020	\$ 543,496	-	\$ 35,646	\$ 579,142
2021	625,450	\$ 45,000	85,550	756,000
2022	628,460	45,000	82,850	756,310
2023	630,820	45,000	80,150	755,970
2024	632,510	50,000	77,450	759,960
2025	638,510	50,000	74,450	762,960
2026	643,940	50,000	71,450	765,390
2027	648,638	55,000	68,450	772,088
2028	652,700	55,000	65,150	772,850
2029	651,008	60,000	61,850	772,858
2030	653,688	60,000	58,250	771,938
2031	660,088	65,000	54,650	779,738
2032	660,738	65,000	50,750	776,488
2033	665,694	70,000	46,850	782,544
2034	669,869	75,000	44,225	789,094
2035	678,119	75,000	41,413	794,531
2036	680,019	80,000	38,600	798,619
2037	676,163	85,000	35,400	796,563
2038	681,550	85,000	32,000	798,550
2039	685,988	90,000	28,600	804,588
2040	689,275	95,000	25,000	809,275
2041	691,600	100,000	21,200	812,800
2042	697,750	100,000	17,200	814,950
2043	432,725	105,000	13,200	550,925
2044	217,350	110,000	9,000	336,350
2045	-	115,000	4,600	119,600
Total	<u>\$ 15,736,148</u>	<u>\$ 1,830,000</u>	<u>\$1,223,934</u>	<u>\$18,790,081</u>

Average Annual Requirements: (2020-2045)..... \$722,695
 Maximum Requirement: (2042) \$814,950

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Estimated Direct and Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from several sources, including information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon 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 presently 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.

Taxing Jurisdiction	Debt as of December 31, 2019	Estimated Overlapping	
		Percent	Amount
Kendall County	\$ 25,685,000	1.22%	\$ 312,975
Boerne Independent School District	316,079,784	1.04%	<u>3,288,919</u>
Total Estimated Overlapping Debt			\$ <u>3,601,894</u>
The District			<u>12,085,000</u> (a)
Total Direct & Estimated Overlapping Debt			\$ <u><u>15,686,894</u></u> (a)

(a) Includes the Bonds.

Debt Ratios

	% of 2019 Assessed Valuation	% of 2020 Estimate of Value
Direct Debt (a)	15.55%	10.97%
Direct and Estimated Overlapping Debt (a)	20.18%	14.24%

(a) Includes the Bonds.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

The Texas 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 Kendall Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Kendall County, including the District. Such appraisal values are subject to review and change by the Kendall 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. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

In addition, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated at no cost by a charitable organization at some or no cost to the veteran. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. The surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit Exemption" may apply, for 2012 and subsequent tax years, to certain tangible personal property that is acquired in or imported into Texas for assembling, storing, manufacturing or fabrication purposes which is destined to be forwarded to another location in Texas not later than 175 days after acquisition or importation, so long as the location where said goods are detained is not directly or indirectly owned by the owner of the goods. The District has not taken action related to taxation of goods-in-transit, and accordingly, the exemption is not available within the District. A taxpayer may not claim both a Freeport Goods Exemption and a Goods-in-Transit Exemption on the same property.

Valuation of Property for Taxation

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

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

From time to time the District may be subject to a natural disaster such as a hurricane, tornado, tropical storm or other adverse weather event severely impacting the entire region and resulting in a disaster declaration by the Governor of the State of Texas. See "RISK FACTORS – Potential Impact of Natural Disaster". When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. The District has not requested a reappraisal of property. On November 5, 2019, a Constitutional Amendment was passed and, effective January 1, 2020, individuals in an area declared to be a disaster area by the Governor may now apply for a temporary tax exemption for qualified property.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal 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 Appraisal District to compel compliance with the Property Tax Code.

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

Rollback of Operation and Maintenance Tax Rate

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

During the 86th Regular Legislative Session, SB 2 was passed and signed by the Governor, with an effective date of January 1, 2020, which effectively restricts increases in the District's operation and maintenance tax rates by requiring rollback elections to reduce the operation and maintenance tax component of the District's total tax rate (collectively, the debt service tax rate, maintenance and operations tax rate and contract tax rate are the "total tax rate"). See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. SB 2 requires a reduction in the operation and maintenance tax component of the District's total tax rate if the District's total tax rate surpasses the thresholds for specific classes of districts in SB 2. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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

Low Tax Rate Districts

Low Tax Rate Districts that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence

homestead, subject to certain homestead exemptions, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Low Tax Rate District is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

Developed Districts

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

Other Districts

Districts that do not meet the classification of a Low Tax Rate District or a Developed District are classified as Other Districts. The qualified voters of these districts, upon the Other District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax rate imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If a rollback election is called and passes, the total tax rate for Other Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

The District

A determination as to a district's status as a Low Tax Rate District, Developed District or Other District will be made on an annual basis, at the time a district sets its tax rate, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new rollback election calculation.

Agricultural, Open Space, Timberland and Inventory Deferral

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the 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 such taxes for a period of three (3) years for agricultural use, timberland or open space land prior to the loss of the designation.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based on valuation of property within the District as of the preceding January 1.

Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) to defray collection costs if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Under certain circumstances, property owners located within a natural disaster area affected by a disaster may pay property taxes in four equal installments following the disaster. Further, a person who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead.

District's Rights in the Event of Tax Delinquencies

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

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

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, and based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds and 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 for federal income tax purposes under existing law, and interest on the Bonds is not subject to the alternative minimum tax.

Bond Counsel has reviewed the information appearing in this Official Statement under the captions "THE DISTRICT - General," "THE BONDS (except under the subheading "Registered Owner's Remedies)," "TAXING PROCEDURES," "LEGAL MATTERS – Legal Proceedings," "TAX MATTERS", and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "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 contained in this Official Statement nor has it conducted an investigation of the affairs of the District or the Developer 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.

No-Litigation Certificate

The District will furnish to the initial purchaser of the Bonds (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.

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 this Official Statement, as it may be supplemented or amended, through the date of sale.

TAX MATTERS

In the opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel, (i) interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purpose, and in addition, will rely on representations by the District and the Initial Purchaser with respect to matters solely within the knowledge of the District and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Order or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds.

If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Proposed Tax Legislation

If enacted, tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the Beneficial Owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Tax Accounting Treatment of Original Issue Discount

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes an original issue discount with respect to such Original Issue Discount Bond in the hands of any

owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to an original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing is based on the assumptions that (a) the Initial Purchaser has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

Qualified Tax-Exempt Obligations for Financial Institutions

The District has designated the Bonds as "qualified tax-exempt obligations" and will represent that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the Issuer and entities aggregated with the Issuer under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the Issuer and entities aggregated with the Issuer under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2020.

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code, as amended. Pursuant to Section 265 of the Code, a qualifying financial institution may be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated bank-qualified investments. Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

The discussion contained herein may not be exhaustive. Investors, including those who are subject to special provisions of the code, should consult their own tax advisors as to the tax treatment which may be anticipated to result from the purchase, ownership, and disposition of tax-exempt obligations before determining whether to purchase the Bonds.

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"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to the EMMA annually.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the heading "DISTRICT DEBT", "TAX DATA," and "APPENDIX A – FINANCIAL STATEMENTS OF THE DISTRICT." The District will update and provide this information to EMMA within six months after the end of each of its fiscal years ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by United States Securities and Exchange Commission Rule 15c2-12 (the "Rule") of the Securities Exchange Act. The updated information will include audited financial statements, if the District commissions an audit and the audit is timely completed. If not timely completed, then the District shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order 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 fiscal year end is currently October 31. Accordingly, it must provide updated information by April 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify EMMA of the change.

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

The Developer has agreed to provide to the District the information that the District has agreed to provide with respect to the Developer. The Developer has also agreed with the District that it will not assign any of its rights to receive payment from the District out of proceeds of the Bonds (except as collateral), unless the assignee assumes the Developer's agreement to provide such information, but the Developer may sell its property within the District without any such assumption. The District's ability to provide information about the Developer or others, as well as the accuracy and completeness of such information, is completely dependent on such persons' compliance with their contractual agreements with the District.

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

Compliance with Prior Undertakings

During the last 5 years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OFFICIAL STATEMENT

Preparation

The information in this Official Statement has been obtained from sources as set forth herein under the following captions: "THE DISTRICT," "THE SYSTEM," "DEVELOPER AND PRINCIPAL LANDOWNERS," "DEVELOPMENT WITHIN THE DISTRICT," "TAX DATA," "THE BONDS", "CONTINUING DISCLOSURE OF INFORMATION", "TAXING PROCEDURES", "LEGAL MATTERS" and "TAX MATTERS."

Experts

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

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

Tax Assessor/Collector and Appraisal District: The information contained in the Official Statement relating to principal taxpayers and tax collection rates and the certified assessed valuation of property in the District and, in particular such information contained in the sections captioned "TAX DATA" has been provided by the Utility Tax Services, Inc. and Kendall Appraisal District, in reliance upon their authority as experts in appraising and tax assessing.

Auditor

The District's audited financial statements for the year ended October 31, 2019 were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, Houston, Texas, and have been included herein as "APPENDIX A". McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Official Statement.

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.

Updating of Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Miscellaneous

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

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

Kurtis Rudkin
President, Board of Directors
Kendall County Water Control & Improvement District No. 2A

ATTEST:

Jim Bruner
Secretary, Board of Directors
Kendall County Water Control & Improvement District No. 2A

APPENDIX A

FINANCIAL STATEMENTS OF THE DISTRICT

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A**

KENDALL COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2019

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A**

KENDALL COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2019

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-9
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	10
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	11-12
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	13
NOTES TO THE FINANCIAL STATEMENTS	14-27
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	29
SUPPLEMENTARY INFORMATION – REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	31
GENERAL FUND EXPENDITURES	32
INVESTMENTS	33
TAXES LEVIED AND RECEIVABLE	34-35
LONG-TERM DEBT SERVICE REQUIREMENTS	36-39
CHANGES IN LONG-TERM BOND DEBT	40-41
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FOUR YEARS	42-45
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	46-47

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kendall County Water Control and
Improvement District No. 2A
Kendall County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Kendall County Water Control and Improvement District No. 2A (the "District"), as of and for the year ended October 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Kendall County Water Control and
Improvement District No. 2A

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 October 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

February 26, 2020

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2019**

Management's discussion and analysis of Kendall County Water Control and Improvement District No. 2A's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended October 31, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position includes all the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for property tax revenues, professional fees and administrative expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE ANALYSIS

Net Position may serve over time as a useful indicator of the District’s financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets by \$3,328,945 as of October 31, 2019.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2019</u>	<u>2018</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 1,271,331	\$ 726,472	\$ 544,859
Capital Assets and Intangible Assets (Net of Accumulated Depreciation and Amortization)	13,732,106	11,081,906	2,650,200
Total Assets	<u>\$ 15,003,437</u>	<u>\$ 11,808,378</u>	<u>\$ 3,195,059</u>
Due to Developer	\$ 7,427,039	\$ 7,126,272	\$ (300,767)
Bonds Payable	10,092,481	6,882,326	(3,210,155)
Other Liabilities	74,930	53,905	(21,025)
Total Liabilities	<u>\$ 17,594,450</u>	<u>\$ 14,062,503</u>	<u>\$ (3,531,947)</u>
Deferred Inflows of Resources	<u>\$ 737,932</u>	<u>\$ 496,455</u>	<u>\$ (241,477)</u>
Net Position:			
Net Investment in Capital Assets	\$ (3,749,811)	\$ (2,902,423)	\$ (847,388)
Restricted For Debt Service	402,861	180,249	222,612
Unrestricted	18,005	(28,406)	46,411
Total Net Position	<u>\$ (3,328,945)</u>	<u>\$ (2,750,580)</u>	<u>\$ (578,365)</u>

The following table provides a summary of the District's financial activities for the years ending October 31, 2019, and October 31, 2018.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2019</u>	<u>2018</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 494,806	\$ 263,954	\$ 230,852
Other Revenues	40,987	15,649	25,338
Total Revenues	<u>\$ 535,793</u>	<u>\$ 279,603</u>	<u>\$ 256,190</u>
Total Expenses	<u>1,114,158</u>	<u>862,518</u>	<u>(251,640)</u>
Change in Net Position	\$ (578,365)	\$ (582,915)	\$ 4,550
Net Position, Beginning of Year	<u>(2,750,580)</u>	<u>(2,167,665)</u>	<u>(582,915)</u>
Net Position, End of Year	<u>\$ (3,328,945)</u>	<u>\$ (2,750,580)</u>	<u>\$ (578,365)</u>

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

The District’s combined fund balances as of October 31, 2019, were \$514,193, an increase of \$303,546 from the prior year.

The General Fund fund balance increased by \$47,093, primarily due to property tax revenues exceeding operating costs during the year.

The Debt Service Fund fund balance increased by \$243,119, primarily due to the structure of the District’s outstanding debt and proceeds received from the sale of the District’s Series 2019 Road bonds.

The Capital Projects Fund fund balance increased by \$13,334. The District sold its Series 2019 Road bonds in the current year and used the proceeds to reimburse its developer.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated General Fund budget for the current fiscal year. Actual property tax revenues exceeded the budgeted amount by \$7,551 and actual expenditures were \$5,445 more than budgeted expenditures.

CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital assets as of October 31, 2019 total \$3,651,841 and include roads, storm drainage system and detention facilities.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets, Net of Accumulated Depreciation:			
Roads	\$ 2,910,975	\$	\$ 2,910,975
Drainage System	579,656	593,554	(13,898)
Detention Facilities	161,210	165,087	(3,877)
Total Net Capital Assets	\$ 3,651,841	\$ 758,641	\$ 2,893,200

Additionally, the District is located within the City of Boerne (the “City”). In accordance with the Development Agreement with the City, water and wastewater facilities constructed are conveyed to the City. For conveyance of these assets, the City is to provide water and wastewater services to the District.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2019**

CAPITAL ASSETS AND INTANGIBLE ASSETS (Continued)

As a result, the District has recognized an intangible asset representing the right to receive service from the City. Intangible assets as of October 31, 2019 total \$10,080,265.

Intangible Assets At Year-End, Net of Accumulated Amortization			
	2019	2018	Change Positive (Negative)
Intangible Assets, Net of Accumulated Amortization:			
Water Infrastructure	\$ 7,546,404	\$ 7,728,337	\$ (181,933)
Sewer Infrastructure	2,533,861	2,594,928	(61,067)
Total Net Intangible Assets	\$ 10,080,265	\$ 10,323,265	\$ (243,000)

LONG-TERM DEBT

At the end of the current fiscal year, the District had total bond debt payable of \$10,255,000. The changes in bond debt payable during the fiscal year ended October 31, 2019, are summarized as follows:

Bond Debt Payable, November 1, 2018	\$ 7,000,000
Add: Bond Sale - Series 2019 Road Bonds	3,350,000
Less: Bond Principal Paid	95,000
Bond Debt Payable, October 31, 2019	\$ 10,255,000

The District's bonds are not rated as of October 31, 2019.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kendall County Water Control and Improvement District No. 2A, c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Blvd., Suite 1380, Houston, TX 77056.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE
OCTOBER 31, 2019**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 48,956	\$ 287,601
Investments		195,000
Property Taxes Receivable	152,098	570,368
Accrued Interest Receivable		705
Due from Other Funds	5,292	
Capital Assets (Net of Accumulated Depreciation)		
Intangible Assets (Net of Accumulated Amortization)		
TOTAL ASSETS	\$ 206,346	\$ 1,053,674
LIABILITIES		
Accounts Payable	\$ 10,487	\$
Accrued Interest Payable		
Due to Developer		
Due to Other Funds		5,292
Accrued Interest At Time of Sale		6,411
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 10,487	\$ 11,703
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 155,524	\$ 583,216
FUND BALANCES		
Restricted for Authorized Construction - Utility Bonds	\$	\$
Restricted for Authorized Construction - Road Bonds		
Restricted for Debt Service - Utility Bonds		287,168
Restricted for Debt Service - Road Bonds		171,587
Unassigned	40,335	
TOTAL FUND BALANCES	\$ 40,335	\$ 458,755
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 206,346	\$ 1,053,674
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 16,603	\$ 353,160	\$	\$ 353,160
	195,000		195,000
	722,466		722,466
	705		705
	5,292	(5,292)	
		3,651,841	3,651,841
		10,080,265	10,080,265
<u>\$ 16,603</u>	<u>\$ 1,276,623</u>	<u>\$ 13,726,814</u>	<u>\$ 15,003,437</u>
\$ 1,500	\$ 11,987	\$	\$ 11,987
		62,943	62,943
		7,427,039	7,427,039
	5,292	(5,292)	
	6,411	(6,411)	
		175,000	175,000
		9,917,481	9,917,481
<u>\$ 1,500</u>	<u>\$ 23,690</u>	<u>\$ 17,570,760</u>	<u>\$ 17,594,450</u>
<u>\$ -0-</u>	<u>\$ 738,740</u>	<u>\$ (808)</u>	<u>\$ 737,932</u>
\$ 594	\$ 594	\$ (594)	\$
14,509	14,509	(14,509)	
	287,168	(287,168)	
	171,587	(171,587)	
	40,335	(40,335)	
<u>\$ 15,103</u>	<u>\$ 514,193</u>	<u>\$ (514,193)</u>	<u>\$ -0-</u>
<u>\$ 16,603</u>	<u>\$ 1,276,623</u>		
		\$ (3,749,811)	\$ (3,749,811)
		402,861	402,861
		18,005	18,005
		<u>\$ (3,328,945)</u>	<u>\$ (3,328,945)</u>

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

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
OCTOBER 31, 2019**

Total Fund Balances - Governmental Funds	\$ 514,193
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets and intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	13,732,106
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Deferred inflows of resources related to property tax revenues for the 2018 tax levy became part of recognized revenue in the governmental activities of the District.	808
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Due to Developer	\$ (7,427,039)	
Accrued Interest Payable	(56,532)	
Bonds Payable	<u>(10,092,481)</u>	<u>(17,576,052)</u>

Total Net Position - Governmental Activities	<u>\$ (3,328,945)</u>
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The accompanying notes to the financial statements are an integral part of this report.

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**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED OCTOBER 31, 2019**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 104,851	\$ 396,501
Penalty and Interest		15,171
Investment and Miscellaneous Revenues		25,659
TOTAL REVENUES	\$ 104,851	\$ 437,331
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 44,381	\$ 3,084
Contracted Services	6,189	13,475
Depreciation and Amortization		
Administrative and Other	7,188	2,593
Capital Outlay		
Developer Interest		
Debt Service:		
Bond Issuance Costs		
Bond Principal		95,000
Bond Interest		251,331
TOTAL EXPENDITURES/EXPENSES	\$ 57,758	\$ 365,483
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 47,093	\$ 71,848
OTHER FINANCING SOURCES (USES)		
Proceeds from Issuance of Long-Term Debt	\$	\$ 171,271
Bond Discount		
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ 171,271
NET CHANGE IN FUND BALANCES	\$ 47,093	\$ 243,119
CHANGE IN NET POSITION		
FUND BALANCES (DEFICIT)/NET POSITION - NOVEMBER 1, 2018	(6,758)	215,636
FUND BALANCES/NET POSITION - OCTOBER 31, 2019	\$ 40,335	\$ 458,755

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 501,352	\$ (6,546)	\$ 494,806
	15,171		15,171
157	25,816	_____	25,816
<u>\$ 157</u>	<u>\$ 542,339</u>	<u>\$ (6,546)</u>	<u>\$ 535,793</u>
\$	\$ 47,465	\$	\$ 47,465
	19,664		19,664
		272,867	272,867
75	9,856		9,856
2,622,300	2,622,300	(2,622,300)	
291,590	291,590		291,590
201,337	201,337		201,337
	95,000	(95,000)	
	251,331	20,048	271,379
<u>\$ 3,115,302</u>	<u>\$ 3,538,543</u>	<u>\$ (2,424,385)</u>	<u>\$ 1,114,158</u>
<u>\$ (3,115,145)</u>	<u>\$ (2,996,204)</u>	<u>\$ 2,417,839</u>	<u>\$ (578,365)</u>
\$ 3,178,729	\$ 3,350,000	\$ (3,350,000)	\$
(50,250)	(50,250)	50,250	
<u>\$ 3,128,479</u>	<u>\$ 3,299,750</u>	<u>\$ (3,299,750)</u>	<u>\$ -0-</u>
\$ 13,334	\$ 303,546	\$ (303,546)	\$
		(578,365)	(578,365)
1,769	210,647	(2,961,227)	(2,750,580)
<u>\$ 15,103</u>	<u>\$ 514,193</u>	<u>\$ (3,843,138)</u>	<u>\$ (3,328,945)</u>

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

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$	303,546
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(6,546)
Governmental funds do not account for amortization and depreciation. However, in the Statement of Net Position, capital assets and intangible assets are depreciated and amortized and an expense is recorded in the Statement of Activities.		(272,867)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		2,622,300
Governmental funds report bond discounts as other financing uses. However, in the Statement of Net Position, bond discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		50,250
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		95,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(20,048)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		<u>(3,350,000)</u>
Change in Net Position - Governmental Activities	\$	<u><u>(578,365)</u></u>

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

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 1. CREATION OF DISTRICT

The District was created pursuant to an election held on May 9, 2009 dividing Kendall County Water Control and Improvement District No. 2 (“KC WCID No. 2”) into KC WCID No. 2 and the District. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 51, Texas Water Code, as amended. The District is subject to the continuing supervision of the Commission.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater, and the control and diversion of storm water. The District may also provide solid waste collection and disposal service and operate, maintain and construct recreational facilities. The District may operate and maintain a fire department, independently or with one or more conservation and reclamation districts, if approved by the District’s voters and the Commission. The District has obtained approval from voters and the Commission to operate a fire department but does not currently do so.

The District is governed by a Board of Directors consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The District held its organizational meeting on August 12, 2010.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

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

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

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

General Fund – To account for property tax revenues, professional fees and administrative expenditures.

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

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

Basis of Accounting

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

Property taxes considered available by the District and included in revenue include 2018 taxes collected during the period October 1, 2018 to October 31, 2019. In addition, taxes collected from November 1, 2018 to October 31, 2019 for the 2017 tax levy are included in revenue. The 2019 tax levy has been fully deferred.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund can repay the advance on a timely basis. As of October 31, 2019, the Debt Service Fund owed the General Fund \$5,292 for maintenance tax collections.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Intangible Assets

Capital assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. The District chose to early implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements. Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Storm drainage and detention facilities are retained by the District and depreciated using the straight-line method of depreciation and estimated useful lives of 10-45 years. Water and sewer facilities are conveyed to the City of Boerne, Texas for ownership and maintenance and amortized over the term of the agreement with the City (see also Note 9).

Budgeting

The Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current year.

Pensions

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

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

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

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 3. LONG-TERM DEBT

The District's bonds payable at October 31, 2019, consists of the following:

	Series 2017	Series 2018	Series 2019 Road
Amount Outstanding – October 31, 2019	\$ 3,815,000	\$ 3,090,000	\$ 3,350,000
Interest Rates	2.20% - 4.00%	2.25% - 4.00%	3.00% - 3.50%
Maturity Dates - Serially Beginning/Ending	September 1, 2020/2042	September 1, 2020/2043	September 1, 2021/2044
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Date	September 1, 2024*	September 1, 2023*	September 1, 2024*

* Or on any date thereafter at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2017 term bonds maturing September 1, 2036, 2039 and 2042 are subject to mandatory redemption beginning September 1, 2035, 2037 and 2040, respectively. Series 2018 term bonds maturing September 1, 2025, 2034, 2036, 2038, 2040 and 2043 are subject to mandatory redemption beginning September 1, 2024, 2033, 2035, 2037, 2039 and 2041, respectively. Series 2019 Road term bonds maturing September 1, 2030, 2040, and 2044 are subject to mandatory redemption beginning September 1, 2029, 2038, and 2041, respectively.

The following is a summary of transactions regarding bonds payable for the year ended October 31, 2019:

	November 1, 2018	Additions	Retirements	October 31, 2019
Bonds Payable	\$ 7,000,000	\$ 3,350,000	\$ 95,000	\$ 10,255,000
Unamortized Discounts	(133,032)	(50,250)	(6,031)	(177,251)
Unamortized Premium	15,358		626	14,732
Bonds Payable, Net	<u>\$ 6,882,326</u>	<u>\$ 3,299,750</u>	<u>\$ 89,595</u>	<u>\$ 10,092,481</u>
		Amount Due Within One Year		\$ 175,000
		Amount Due After One Year		<u>9,917,481</u>
		Bonds Payable, Net		<u>\$ 10,092,481</u>

As of October 31, 2019, the District has authorized but unissued bonds in the amount of \$5,150,000 for implementation of improvements related to a fire protection plan and related refunding bonds of \$7,725,000. The District also has authorized but unissued bonds in the amount of \$85,167,640 for utility facilities, \$138,386,460 for utility refunding bonds, \$24,877,790 for road facilities and \$42,341,685 for refunding road bonds. As of October 31, 2019, the debt service requirements on the bonds outstanding were as follows:

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 3. LONG-TERM DEBT (Continued)

Fiscal Year	Principal	Interest	Total
2020	\$ 175,000	\$ 362,085	\$ 537,085
2021	270,000	355,449	625,449
2022	280,000	348,460	628,460
2023	290,000	340,819	630,819
2024	300,000	332,510	632,510
2025-2029	1,720,000	1,514,793	3,234,793
2030-2034	2,110,000	1,200,077	3,310,077
2035-2039	2,625,000	776,837	3,401,837
2040-2044	2,485,000	243,700	2,728,700
	<u>\$ 10,255,000</u>	<u>\$ 5,474,730</u>	<u>\$ 15,729,730</u>

During the year ended October 31, 2019, the District levied an ad valorem debt service tax rate of \$0.75 (\$0.17 for roads and \$0.58 for utilities) per \$100 of assessed valuation, which resulted in a tax levy of \$582,578 on the adjusted taxable valuation of \$77,677,179 for the 2019 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy. The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

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

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue and every fifth year thereafter until the bonds are paid off.

The District deposited Series 2019 bond proceeds of \$171,271 into the Debt Service Fund and restricted these funds for the payment of bond interest.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes. Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District’s deposits was \$548,160 and the bank balance was \$544,635. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits included in the Governmental Funds Balance Sheet and Statement of Net Position at October 31, 2019, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 48,956	\$	\$ 48,956
DEBT SERVICE FUND	287,601	195,000	482,601
CAPITAL PROJECTS FUND	16,603		16,603
TOTAL DEPOSITS	\$ 353,160	\$ 195,000	\$ 548,160

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District records its investments in certificates of deposit at acquisition cost. As of October 31, 2019, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities Of Less Than 1 Year
<u>DEBT SERVICE FUND</u>		
Certificate of Deposit	<u>\$ 195,000</u>	<u>\$ 195,000</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

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

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 6. CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital asset activity for the year ended October 31, 2019 is as follows:

	November 1, 2018	Increases	Decreases	October 31, 2019
Capital Assets Subject to Depreciation				
Roads	\$	\$ 2,923,067	\$	\$ 2,923,067
Drainage System	625,424			625,424
Detention Facilities	174,455			174,455
Total Capital Assets Subject to Depreciation	<u>\$ 799,879</u>	<u>\$ 2,923,067</u>	<u>\$ - 0 -</u>	<u>\$ 3,722,946</u>
Accumulated Depreciation				
Roads	\$	\$ 12,092	\$	\$ 12,092
Drainage System	31,870	13,898		45,768
Detention Facilities	9,368	3,877		13,245
Total Accumulated Depreciation	<u>\$ 41,238</u>	<u>\$ 29,867</u>	<u>\$ - 0 -</u>	<u>\$ 71,105</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 758,641</u>	<u>\$ 2,893,200</u>	<u>\$ - 0 -</u>	<u>\$ 3,651,841</u>

Certain infrastructure constructed by the Developer for the purposes of providing water and wastewater service to District residents is conveyed to other entities for ownership and maintenance. These costs are recorded as intangible assets and amortized over the term of the applicable contract.

	November 1, 2018	Increases	Decreases	October 31, 2019
Intangible Assets Subject to Amortization				
Water Infrastructure	\$ 8,159,478	\$	\$	\$ 8,159,478
Sewer Infrastructure	2,726,405			2,726,405
Total Intangible Assets Subject to Depreciation	<u>\$ 10,885,883</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 10,885,883</u>
Accumulated Amortization				
Water Infrastructure	\$ 431,141	\$ 181,933	\$	\$ 613,074
Sewer Infrastructure	131,477	61,067		192,544
Total Accumulated Depreciation	<u>\$ 562,618</u>	<u>\$ 243,000</u>	<u>\$ - 0 -</u>	<u>\$ 805,618</u>
Total Amortizable Intangible Assets, Net of Accumulated Amortization	<u>\$ 10,323,265</u>	<u>\$ (243,000)</u>	<u>\$ - 0 -</u>	<u>\$ 10,080,265</u>

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 7. MAINTENANCE TAX

On November 8, 2011, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. During the year ended October 31, 2019, the District levied an ad valorem maintenance tax rate of \$0.20 per \$100 of assessed valuation, which resulted in a tax levy of \$155,354 on the adjusted taxable valuation of \$77,677,179 for the 2019 tax year. This maintenance tax is to be used by the General Fund to pay general and administrative expenditures. The maintenance tax is used to pay for any lawfully authorized expenditures of the District.

NOTE 8. CONTRACT FOR FINANCING, OPERATION AND MAINTENANCE OF REGIONAL FACILITIES

The District has entered into a contract with Kendall County Water Control and Improvement District No. 2 (in its capacity as the Master District) for the financing, operation, and maintenance of regional water, sewer, drainage, roads, and fire protection facilities to serve the Esperanza master planned community (the “Master District Service Area”). The Master District will finance the cost of the regional facilities in the Master District Service Area by imposing a capital recovery fee to participating districts. Such fee will be calculated from time to time on the basis of the then estimated total cost of constructing the regional facilities minus the payments which have been previously received for connections purchased and dividing the result by the number of estimated total connections to be constructed within the Master District Service Area minus the number of connections previously purchased from the Master District. The capital recovery fee will include separate components for the regional water system, regional sanitary sewer system, regional storm sewer system, regional road system and regional fire department station. The Master District may periodically recompute the capital recovery fee based on changes in various costs.

The Master District shall charge a monthly fee to participating districts for expenses related to the operation and maintenance of the regional facilities, such cost per connection multiplied by the number of actual connections in the participating district. As of October 31, 2019, the Master District has not charged monthly operating and maintenance fees.

The contract authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months’ operating and maintenance expenses, as set forth in the Master District’s annual budget. Prior to commencement of services, the Master District shall bill the participating districts an amount calculated by multiplying the monthly fee (as defined above) by three in order to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually. As of October 31, 2019, the Master District has not established an operating reserve.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 9. DEVELOPMENT AGREEMENT WITH THE CITY OF BOERNE

The City provides retail water supply and retail wastewater services to the District, pursuant to that certain 2008 Development Agreement between MA Boerne Partners, LP, the prior developer, and the District, effective February 12, 2008, as amended by that certain First Modification, Ratification and Extension to 2008 Development Agreement, dated February 5, 2014, the Second Modification, Ratification and Extension to the Development Agreement dated September 17, 2014, the third Modification, Ratification and Extension to the Development Agreement dated January 27, 2016 and the fourth Modification, Ratification and Extension to the Development Agreement dated October 13, 2017, (collectively, the “Development Agreement”). Certain provisions of the Development Agreement concerning the provision of water and/or sewer service to the property within the District have been assigned from the Developer to the District.

Pursuant to the Development Agreement, the City shall have and exercise exclusive jurisdiction over the subdivision and platting of the property within the District and the design, construction, installation, and inspection of water, sewer, drainage, roadway, and other public infrastructure (the “Public Infrastructure”) to serve the property within the District. The Developer and/or District are responsible for designing, acquiring and constructing for the benefit of, and for ultimate conveyance to the City, the water and sewer Public Infrastructure. The City agrees to provide water supply services and wastewater treatment services to the District. The District, at its sole expense, shall provide, or cause to be provided, police services within the District. Fire service shall be provided by the City to the property within the District. EMS service shall be provided by Kendall County to the property within the District.

NOTE 10. CONSENT AGREEMENT WITH THE CITY OF BOERNE

In connection with the creation of KC WCID 2, the City, the Developer and KC WCID 2 entered into an “Interlocal Agreement Concerning the Creation and Operation of Kendall County Water Control & Improvement District No. 2,” dated February 23, 2008, as amended by that certain Modification, Ratification and Extension of Development Agreement and District Consent Agreement dated February 5, 2014, adding the District as a party, and that Second Amendment to Development Agreement and District Consent Agreement and First Amendment to the Strategic Partnership Agreement, dated September 17, 2014, and Third Amendment to Development Agreement and District Consent Agreement dated February 18, 2016, and the Fourth Amendment to Development Agreement and District Consent Agreement dated October 17, 2017 (collectively, the “Consent Agreement”). In the Consent Agreement, which amends and restates a similar consent agreement with a prior owner of the property upon which the District was formed, the City consented to: the creation of the District; the District undertaking certain road projects within the District; the calling of an election to create the District and carry out its operations; and the division of KC WCID 2 into two or more separate water control and improvement districts.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 10. CONSENT AGREEMENT WITH THE CITY OF BOERNE (Continued)

In addition, the City agreed that the City would not annex the District any earlier than the first to occur of: (1) completion of infrastructure to serve 95% development of the applicable district and the issuance by the District of bonds to reimburse the cost of such water, wastewater, drainage, roadway and other infrastructure improvements installed or constructed to serve the applicable district; (2) 15 years after the first record plat is recorded within the applicable district; or (3) the dissolution of the applicable district (other than as a result of annexation by the City). Furthermore, in consideration for the City's consent to create the District and issue unlimited Tax bonds for road facilities, the District agrees that it and any subsequently created districts shall not issue more than an aggregate \$250,000,000 principal amount of bonds.

NOTE 11. UNREIMBURSED COSTS

The District has recorded a payable to its Developer of \$7,427,039 for operating advances and completed construction projects. The Developer has incurred additional costs for construction projects which were not complete at year-end as well as payments to the City for road improvements, capacity fees and other land development costs. The District anticipates reimbursing these costs from future bond sales.

NOTE 12. RISK MANAGEMENT

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

NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT

The City and KC WCID 2 entered into a "Strategic Partnership Agreement" (the "Strategic Partnership Agreement") dated February 12, 2008. In the Strategic Partnership Agreement, the City annexed KC WCID 2, including the District, for the sole and exclusive purpose of imposing and collecting sales and use taxes authorized by Chapter 321 of the Texas Tax Code, including Type A and Type B economic developments sales tax, within such area. The City is not required to provide any municipal services to Esperanza. The City retains all sales and use tax revenue collected within KC WCID 2, the District and any subsequently created districts serving Esperanza.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 14. BOND SALE

On August 22, 2019, the District closed on the sale of its \$3,350,000 Series 2019 Unlimited Tax Road Bonds. Bond proceeds were used to reimburse the Developer for road construction costs serving Esperanza Phases 1 and 2A, including developer interest. Bond proceeds were also used to pay bond issuance costs and capitalized interest.

NOTE 15. USE OF SURPLUS FUNDS

In accordance with Commission rules, the District approved the use of surplus Capital Projects Fund money from the Series 2019 Road bonds of \$105,434 to fund road connection fees.

NOTE 16. PENDING BOND SALE

On or about April 24, 2020, subsequent to the report date, the District plans to issue its \$1,830,000 Series 2020 Unlimited Tax Bonds. Proceeds of the bonds will be used to (i) reimburse the Developer for operating costs, (ii) pay six months of capitalized interest on the Bonds, developer interest, bond issuance costs, and (iii) fund the Master Utility District connection charges for water, wastewater, and drainage facilities serving the District.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A**

REQUIRED SUPPLEMENTARY INFORMATION

OCTOBER 31, 2019

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED OCTOBER 31, 2019**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 97,300	\$ 104,851	\$ 7,551
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 38,000	\$ 44,381	\$ (6,381)
Contracted Services	6,300	6,189	111
Administrative and Other	8,013	7,188	825
TOTAL EXPENDITURES	<u>\$ 52,313</u>	<u>\$ 57,758</u>	<u>\$ (5,445)</u>
NET CHANGE IN FUND BALANCE	\$ 44,987	\$ 47,093	\$ 2,106
FUND BALANCE (DEFICIT) - NOVEMBER 1, 2018	<u>(6,758)</u>	<u>(6,758)</u>	<u></u>
FUND BALANCE - OCTOBER 31, 2019	<u>\$ 38,229</u>	<u>\$ 40,335</u>	<u>\$ 2,106</u>

See accompanying independent auditor's report.

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**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

OCTOBER 31, 2019

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
SERVICES AND RATES
FOR THE YEAR ENDED OCTOBER 31, 2019**

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

<input type="checkbox"/>	Retail Water	<input type="checkbox"/>	Wholesale Water	<input checked="" type="checkbox"/>	Drainage
<input type="checkbox"/>	Retail Wastewater	<input type="checkbox"/>	Wholesale Wastewater	<input type="checkbox"/>	Irrigation
<input type="checkbox"/>	Parks/Recreation	<input type="checkbox"/>	Fire Protection	<input type="checkbox"/>	Security
<input type="checkbox"/>	Solid Waste/Garbage	<input type="checkbox"/>	Flood Control	<input checked="" type="checkbox"/>	Roads
<input type="checkbox"/>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<input type="checkbox"/>	Other (specify): <u>Certain services are provided by the City of Boerne (see Note 9).</u>				

2. RETAIL SERVICE PROVIDERS: (NOT APPLICABLE)

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (NOT APPLICABLE)

4. STANDBY FEES: (NOT APPLICABLE)

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Kendall County, Texas

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

Entirely Partly Not at all

ETJ in which City is located:

City of Boerne, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED OCTOBER 31, 2019**

PROFESSIONAL FEES:	
Audit	\$ 11,500
Engineering	2,611
Legal	<u>30,270</u>
TOTAL PROFESSIONAL FEES	<u>\$ 44,381</u>
CONTRACTED SERVICES:	
Bookkeeping	<u>\$ 6,189</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 3,230
Insurance	3,168
Website	<u>790</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 7,188</u>
TOTAL EXPENDITURES	<u>\$ 57,758</u>

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
INVESTMENTS
OCTOBER 31, 2019**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX5535	2.00%	02/21/20	<u>\$ 195,000</u>	<u>\$ 705</u>

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED OCTOBER 31, 2019**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - NOVEMBER 1, 2018	\$	97,169	\$	367,691
Adjustments to Beginning Balance		<u>(348)</u>	\$	<u>96,821</u>
			<u>(1,302)</u>	\$ 366,389
Original 2019 Tax Levy	\$	155,354	\$	582,578
Adjustment to 2019 Tax Levy		<u>155,354</u>		<u>582,578</u>
TOTAL TO BE ACCOUNTED FOR		\$ 252,175		\$ 948,967
TAX COLLECTIONS:				
Prior Years	\$	96,651	\$	365,751
Current Year		<u>3,426</u>		<u>12,848</u>
		<u>100,077</u>		<u>378,599</u>
TAXES RECEIVABLE - OCTOBER 31, 2019		<u>\$ 152,098</u>		<u>\$ 570,368</u>
TAXES RECEIVABLE BY YEAR:				
2019		\$ 151,928		\$ 569,730
2018		<u>170</u>		<u>638</u>
TOTAL		<u>\$ 152,098</u>		<u>\$ 570,368</u>

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED OCTOBER 31, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
PROPERTY VALUATIONS:				
Land	\$ 32,408,260	\$ 21,800,020	\$ 18,203,420	\$ 6,362,740
Improvements	55,068,990	36,018,590	14,832,710	1,666,490
Personal Property	367,800	362,410		
Exemptions	<u>(10,167,871)</u>	<u>(5,922,550)</u>	<u>(4,794,620)</u>	<u>(3,822,202)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 77,677,179</u>	<u>\$ 52,258,470</u>	<u>\$ 28,241,510</u>	<u>\$ 4,207,028</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.75	\$ 0.75	\$ 0.84	\$ 0.00
Maintenance	<u>0.20</u>	<u>0.20</u>	<u>0.11</u>	<u>0.95</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.95</u>	<u>\$ 0.95</u>	<u>\$ 0.95</u>	<u>\$ 0.95</u>
ADJUSTED TAX LEVY*	<u>\$ 737,932</u>	<u>\$ 496,455</u>	<u>\$ 268,295</u>	<u>\$ 39,967</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED				
	<u>2.21 %</u>	<u>99.84 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

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

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on November 8, 2011.

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
LONG-TERM DEBT SERVICE REQUIREMENTS
OCTOBER 31, 2019**

S E R I E S - 2 0 1 7

Due During Fiscal Years Ending October 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$ 100,000	\$ 137,896	\$ 237,896
2021	105,000	135,696	240,696
2022	110,000	133,176	243,176
2023	110,000	130,316	240,316
2024	115,000	127,236	242,236
2025	120,000	123,786	243,786
2026	130,000	120,066	250,066
2027	135,000	115,906	250,906
2028	140,000	111,519	251,519
2029	145,000	106,794	251,794
2030	150,000	101,719	251,719
2031	160,000	96,319	256,319
2032	165,000	90,519	255,519
2033	175,000	84,538	259,538
2034	180,000	77,975	257,975
2035	190,000	71,000	261,000
2036	200,000	63,400	263,400
2037	205,000	55,400	260,400
2038	215,000	47,200	262,200
2039	225,000	38,600	263,600
2040	235,000	29,600	264,600
2041	245,000	20,200	265,200
2042	260,000	10,400	270,400
2043			
2044			
	<u>\$ 3,815,000</u>	<u>\$ 2,029,261</u>	<u>\$ 5,844,261</u>

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
LONG-TERM DEBT SERVICE REQUIREMENTS
OCTOBER 31, 2019**

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending October 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$ 75,000	\$ 111,535	\$ 186,535
2021	80,000	109,847	189,847
2022	80,000	107,928	187,928
2023	85,000	105,847	190,847
2024	90,000	103,468	193,468
2025	95,000	100,767	195,767
2026	95,000	97,918	192,918
2027	100,000	94,925	194,925
2028	105,000	91,675	196,675
2029	110,000	88,157	198,157
2030	115,000	84,363	199,363
2031	120,000	79,763	199,763
2032	125,000	74,962	199,962
2033	130,000	69,963	199,963
2034	135,000	65,088	200,088
2035	145,000	60,025	205,025
2036	150,000	54,587	204,587
2037	155,000	48,962	203,962
2038	165,000	43,150	208,150
2039	170,000	36,963	206,963
2040	180,000	30,375	210,375
2041	185,000	23,400	208,400
2042	195,000	16,000	211,000
2043	205,000	8,200	213,200
2044			
	<u>\$ 3,090,000</u>	<u>\$ 1,707,868</u>	<u>\$ 4,797,868</u>

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
LONG-TERM DEBT SERVICE REQUIREMENTS
OCTOBER 31, 2019**

SERIES - 2019 ROAD

Due During Fiscal Years Ending October 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$	\$ 112,654	\$ 112,654
2021	85,000	109,906	194,906
2022	90,000	107,356	197,356
2023	95,000	104,656	199,656
2024	95,000	101,806	196,806
2025	100,000	98,956	198,956
2026	105,000	95,956	200,956
2027	110,000	92,806	202,806
2028	115,000	89,506	204,506
2029	115,000	86,056	201,056
2030	120,000	82,606	202,606
2031	125,000	79,006	204,006
2032	130,000	75,256	205,256
2033	135,000	71,194	206,194
2034	145,000	66,806	211,806
2035	150,000	62,094	212,094
2036	155,000	57,031	212,031
2037	160,000	51,800	211,800
2038	165,000	46,200	211,200
2039	175,000	40,425	215,425
2040	180,000	34,300	214,300
2041	190,000	28,000	218,000
2042	195,000	21,350	216,350
2043	205,000	14,525	219,525
2044	210,000	7,350	217,350
	<u>\$ 3,350,000</u>	<u>\$ 1,737,601</u>	<u>\$ 5,087,601</u>

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
LONG-TERM DEBT SERVICE REQUIREMENTS
OCTOBER 31, 2019**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending October 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 175,000	\$ 362,085	\$ 537,085
2021	270,000	355,449	625,449
2022	280,000	348,460	628,460
2023	290,000	340,819	630,819
2024	300,000	332,510	632,510
2025	315,000	323,509	638,509
2026	330,000	313,940	643,940
2027	345,000	303,637	648,637
2028	360,000	292,700	652,700
2029	370,000	281,007	651,007
2030	385,000	268,688	653,688
2031	405,000	255,088	660,088
2032	420,000	240,737	660,737
2033	440,000	225,695	665,695
2034	460,000	209,869	669,869
2035	485,000	193,119	678,119
2036	505,000	175,018	680,018
2037	520,000	156,162	676,162
2038	545,000	136,550	681,550
2039	570,000	115,988	685,988
2040	595,000	94,275	689,275
2041	620,000	71,600	691,600
2042	650,000	47,750	697,750
2043	410,000	22,725	432,725
2044	210,000	7,350	217,350
	<u>\$ 10,255,000</u>	<u>\$ 5,474,730</u>	<u>\$ 15,729,730</u>

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
CHANGES IN LONG-TERM BOND DEBT
OCTOBER 31, 2019**

Description	Original Bonds Issued	Bonds Outstanding November 1, 2018
Kendall County Water Control and Improvement District No. 2A Unlimited Tax Bonds - Series 2017	\$ 4,000,000	\$ 3,910,000
Kendall County Water Control and Improvement District No. 2A Unlimited Tax Bonds - Series 2018	3,090,000	3,090,000
Kendall County Water Control and Improvement District No. 2A Unlimited Tax Road Bonds - Series 2019	<u>3,350,000</u>	<u> </u>
TOTAL	<u>\$ 10,440,000</u>	<u>\$ 7,000,000</u>

Bond Authority:	Tax Bonds Utilities	Refunding Bonds Utilities	Road Bonds
Amount Authorized by Voters	\$ 92,257,640	\$ 138,386,460	\$ 28,227,790
Amount Issued	<u>7,090,000</u>	<u> </u>	<u>3,350,000</u>
Remaining to be Issued	<u>\$ 85,167,640</u>	<u>\$ 138,386,460</u>	<u>\$ 24,877,790</u>

Debt Service Fund cash and investment balances as of October 31, 2019: \$ 482,601

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 629,189

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

See accompanying independent auditor's report.

Current Year Transactions

<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding October 31, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 95,000	\$ 139,796	\$ 3,815,000	Amegy Bank, a Division of ZB, N.A. Houston, TX
		111,535	3,090,000	Amegy Bank, a Division of ZB, N.A. Houston, TX
<u>3,350,000</u>			<u>3,350,000</u>	Amegy Bank, a Division of ZB, N.A. Houston, TX
<u>\$ 3,350,000</u>	<u>\$ 95,000</u>	<u>\$ 251,331</u>	<u>\$ 10,255,000</u>	
<u>Road Refunding Bonds</u>	<u>Fire Protection Bonds</u>	<u>Fire Protection Refunding Bonds</u>		
\$ 42,341,685	\$ 5,150,000	\$ 7,725,000		
<u>\$ 42,341,685</u>	<u>\$ 5,150,000</u>	<u>\$ 7,725,000</u>		

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FOUR YEARS**

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 104,851	\$ 29,853	\$ 39,826
Investment and Miscellaneous Revenues			3
TOTAL REVENUES	<u>\$ 104,851</u>	<u>\$ 29,853</u>	<u>\$ 39,829</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 44,381	\$ 42,472	\$ 50,040
Contracted Services	6,189	6,276	3,873
Administrative and Other	7,188	5,912	8,189
TOTAL EXPENDITURES	<u>\$ 57,758</u>	<u>\$ 54,660</u>	<u>\$ 62,102</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 47,093</u>	<u>\$ (24,807)</u>	<u>\$ (22,273)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$	\$	\$ 4,000
Developer Advances		20,000	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ 20,000</u>	<u>\$ 4,000</u>
NET CHANGE IN FUND BALANCE	\$ 47,093	\$ (4,807)	\$ (18,273)
BEGINNING FUND BALANCE (DEFICIT)	<u>(6,758)</u>	<u>(1,951)</u>	<u>16,322</u>
ENDING FUND BALANCE (DEFICIT)	<u><u>\$ 40,335</u></u>	<u><u>\$ (6,758)</u></u>	<u><u>\$ (1,951)</u></u>

See accompanying independent auditor's report.

	Percentage of Total Revenues				
<u>2016</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	
\$ 53,082 5	100.0 %	100.0 %	99.9 % 0.1	99.9 % 0.1	
\$ 53,087	100.0 %	100.0 %	100.0 %	100.0 %	
\$ 30,458	42.3 %	142.3 %	125.6 %	57.4 %	
6,978	5.9	21.0	9.7	13.1	
5,499	6.9	19.8	20.6	10.4	
\$ 42,935	55.1 %	183.1 %	155.9 %	80.9 %	
\$ 10,152	44.9 %	(83.1) %	(55.9) %	19.1 %	
\$ 2,500					
\$ 2,500					
\$ 12,652					
3,670					
\$ 16,322					

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FOUR YEARS**

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 396,501	\$ 226,888	\$
Penalty and Interest	15,171	12,728	480
Investment and Miscellaneous Revenues	25,659	2,921	580
TOTAL REVENUES	<u>\$ 437,331</u>	<u>\$ 242,537</u>	<u>\$ 1,060</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 18,352	\$ 17,180	\$ 2,182
Debt Service Principal	95,000	90,000	
Debt Service Interest and Fees	252,131	174,612	67,544
TOTAL EXPENDITURES	<u>\$ 365,483</u>	<u>\$ 281,792</u>	<u>\$ 69,726</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 71,848</u>	<u>\$ (39,255)</u>	<u>\$ (68,666)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	<u>\$ 171,271</u>	<u>\$ 111,535</u>	<u>\$ 212,022</u>
NET CHANGE IN FUND BALANCE	\$ 243,119	\$ 72,280	\$ 143,356
BEGINNING FUND BALANCE	<u>215,636</u>	<u>143,356</u>	<u></u>
ENDING FUND BALANCE	<u><u>\$ 458,755</u></u>	<u><u>\$ 215,636</u></u>	<u><u>\$ 143,356</u></u>

See accompanying independent auditor's report.

	Percentage of Total Revenues				
<u>2016</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	
\$	90.5 %	93.5 %			%
	3.6	5.3	45.3		
	5.9	1.2	54.7		
<u>\$ - 0 -</u>	<u>100.0</u> %	<u>100.0</u> %	<u>100.0</u> %	<u>N/A</u>	%
\$	4.2 %	7.1 %	205.8 %		%
	21.7	37.1			
	57.7	72.0	6,372.1		
<u>\$ - 0 -</u>	<u>83.6</u> %	<u>116.2</u> %	<u>6,577.9</u> %	<u>N/A</u>	%
<u>\$ - 0 -</u>	<u>16.4</u> %	<u>(16.2)</u> %	<u>(6,477.9)</u> %	<u>N/A</u>	%
<u>\$ - 0 -</u>					
\$ - 0 -					
<u>\$ - 0 -</u>					

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
OCTOBER 31, 2019**

District Mailing Address Kendall County Water Control and Improvement District No. 2A
c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP
1980 Post Oak Boulevard, Suite 1380
Houston, TX 77056

District Telephone Number (713) 850-9000

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>October 31, 2019</u>	Expense Reimbursements for the year ended <u>October 31, 2019</u>	<u>Title</u>
Johnny Wright	11/18 11/22 (Elected)	\$ 600	\$ -0-	President
Sherry Christofilis	11/16 11/20 (Elected)	\$ 750	\$ -0-	Vice President
Jim Bruner	11/18 11/22 (Elected)	\$ 750	\$ -0-	Secretary
Kurtis Rudkin	11/16 11/20 (Elected)	\$ 300	\$ -0-	Assistant Secretary
Beth Coyle	11/18 11/22 (Elected)	\$ 600	\$ -0-	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form: April 5, 2016.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by the Commission. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**KENDALL COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 2A
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
OCTOBER 31, 2019**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended October 31, 2019</u>	<u>Title</u>
Sanford Kuhl Hagan Kugle Parker Kahn LLP	08/12/10	\$ 30,270 \$ 86,663	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	09/07/16	\$ 11,500 \$ 13,500	Audit Related Bond Related
L & S District Services, LLC	08/12/10	\$ 6,189 \$ 900	Bookkeeper Bond Related
Kimley-Horn and Associates, Inc.	01/16/14	\$ 2,611	Engineer
Robert W. Baird & Co.	03/31/15	\$ 71,162	Financial Advisor
Cindy Schmidt	03/31/16	\$ -0-	Investment Officer
Utility Tax Services	09/15/17	\$ 8,581	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN