

OFFICIAL STATEMENT DATED APRIL 23, 2014

NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: Insured S&P “AA” (stable outlook); Underlying Moody’s “A1”  
See “MUNICIPAL BOND RATINGS AND INSURANCE”

*Delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations. THE DISTRICT HAS DESIGNATED THE BONDS AS “QUALIFIED TAX-EXEMPT OBLIGATIONS.” See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions” herein.*

\$5,840,000

**Block House Municipal Utility District**

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

UNLIMITED TAX REFUNDING BONDS, SERIES 2014

Dated: May 1, 2014

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

Interest on the Block House Municipal Utility District Unlimited Tax Refunding Bonds, Series 2014 (the “Bonds”) will accrue from May 1, 2014, is payable October 1, 2014 and each April 1 and October 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company 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. See “Book-Entry-Only System.” So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrar for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the “Paying Agent”). The Bonds are obligations solely of Block House Municipal Utility District (the “District”) and are not obligations of the City of Cedar Park, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District.

The Bonds are being issued to currently refund a portion of the District’s outstanding Unlimited Tax Refunding Bonds, Series 2007 to achieve a debt service savings and pay the costs of issuing the Bonds. See “PLAN OF FINANCING.” The Bonds maturing on and after April 1, 2021, are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on April 1, 2020 or any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY**. See “BOND INSURANCE.”



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**MATURITY SCHEDULE**  
(see inside cover page)

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The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. See “THE BONDS – Source of and Security for Payment.” This cover page contains information for quick reference only and is not a summary of the Bonds. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

**Investment in the Bonds is subject to certain investment considerations. See “INVESTMENT CONSIDERATIONS” herein.**

The Bonds are offered when, as and if issued by the District, and accepted by the initial purchaser thereof named below (the “Underwriter”) subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews Kurth LLP, Austin, Texas. The Bonds in definitive form are expected to be available for delivery through DTC, on May 22, 2014.

**SOUTHWEST SECURITIES**

**MATURITY SCHEDULE**  
(Due April 1)

<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Reoffering Yield<sup>(b)</sup></b>	<b>CUSIP Number<sup>(c)</sup></b>	<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Reoffering Yield<sup>(b)</sup></b>	<b>CUSIP Number<sup>(c)</sup></b>
2015	\$ 25,000	2.000%	0.500%	093674MN6	2022 <sup>(a)</sup>	\$ 395,000	3.000%	2.350%	093674MV8
2016	25,000	2.000%	0.750%	093674MP1	2023 <sup>(a)</sup>	395,000	3.000%	2.530%	093674MW6
2017	50,000	2.000%	1.000%	093674MQ9	2024 <sup>(a)</sup>	410,000	3.000%	2.700%	093674MX4
2018	345,000	2.000%	1.300%	093674MR7	2025 <sup>(a)</sup>	430,000	3.500%	2.820%	093674MY2
2019	340,000	2.500%	1.550%	093674MS5	2026 <sup>(a)</sup>	1,165,000	3.500%	3.000%	093674MZ9
2020	365,000	3.000%	1.850%	093674MT3	2027 <sup>(a)</sup>	1,515,000	3.500%	3.100%	093674NA3
2021 <sup>(a)</sup>	380,000	3.000%	2.130%	093674MU0					

- (a) Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after April 1, 2021, in whole or from time to time in part, on April 1, 2020, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS - Redemption."
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter. The yields may be changed at any time at the discretion of the Underwriter. Accrued interest from May 1, 2014 to the date of delivery of the Bonds to the Underwriter will be added to the purchase price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. None of the Underwriter, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the other matters described herein since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, OR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

## SALE AND DISTRIBUTION OF THE BONDS

### Underwriting

The Underwriter listed on the cover page of this Official Statement has agreed, subject to certain conditions in the bond purchase agreement, to purchase the Bonds from the District for \$5,982,098.28 (an amount equal to the principal amount of the Bonds, plus an original issue premium of \$177,254.90, less an Underwriter's discount of \$45,924.95, and plus accrued interest of \$10,768.33).

### Prices and Marketability

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

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.

### Securities Laws

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

## MUNICIPAL BOND RATINGS AND INSURANCE

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A1" to the Bonds.

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstance warrant. Any such downward revision or withdrawal of such rating may have an adverse effect of the market price of the Bonds.

## 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 appendix 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. 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: 1 World Financial Center, 27th Floor, 200 Liberty Street, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://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 Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://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, 2013 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$486.5 million, \$17.5 million and 469.0 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](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

*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/](http://buildamerica.com/creditinsights/).

**Obligor Disclosure Briefs.** Subsequent to closing, BAM posts an Obligor Disclosure Brief on every issue insured by BAM, including the Bonds. BAM Obligor Disclosure Briefs provide information about the gross par insured by CUSIP, maturity and coupon; sector designation (e.g. general obligation, sales tax); a summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. The Obligor Disclosure Briefs are also easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/).

**Disclaimers.** The Obligor Disclosure Briefs 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 Obligor Disclosure Briefs 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 Obligor Disclosure Briefs and Credit Insight videos are prepared by BAM and have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and they 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.

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## OFFICIAL STATEMENT SUMMARY

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

### THE DISTRICT

- The District ..... Block House Municipal Utility District (the "District") is a political subdivision of the State of Texas created by an order of the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), adopted on January 12, 1978 and confirmed at an election held within the District on April 4, 1981, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide water, wastewater and storm drainage to the approximately 717 acres within its boundaries, all of which lies within Williamson County, Texas. See "THE DISTRICT – General."
- Location ..... The District, which encompasses approximately 717 acres of land, is located in southwestern Williamson County and lies approximately 23.5 miles north of the City of Austin's central business district and adjacent to the City of Cedar Park's city limits. The District lies entirely within the extraterritorial jurisdiction of the City of Cedar Park, Texas. See "THE DISTRICT – Location."
- Status of Development ..... Of the approximately 717 acres within the District, approximately 586 acres are developable. See "THE DISTRICT." As of April 1, 2014, utility facilities have been constructed to serve approximately 555 acres (or 94.7% of the developable acreage) within the District. Development includes 2,167 completed single-family homes. There are no homes currently under construction and 11 vacant developed single-family lots. The District contains approximately 31.48 acres of undeveloped but developable commercial property owned by Paver Family Enterprises L.P. (the "Landowner"). The Landowner is under no obligation to initiate or complete any commercial development, and may modify or discontinue sales or development plans at its sole discretion. Accordingly, the District makes no representation that such acreage will ever be developed with commercial improvements. Additional development within the District includes a 4- acre park, a 21-acre park with swimming pool, ball fields and playground, a 2-acre park with a heated swimming pool, an approximately 17-acre park, an 800 pupil elementary school located on approximately 16 acres and a Stepping Stone Day Care Center. See "THE DISTRICT – Historical and Current Status of Development."

### THE BONDS

- Description ..... The Bonds in the aggregate principal amount of \$5,840,000 mature serially in varying amounts on April 1 of each of the years 2015 through 2027 as set forth on the inside cover page hereof. Interest accrues from May 1, 2014 at the rates per annum set forth on the inside cover page hereof and is payable October 1, 2014 and each April 1 and October 1 thereafter until maturity or prior redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
- Redemption ..... Bonds maturing on and after April 1, 2021 are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on April 1, 2020, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS - Redemption."
- Source of Payment ..... Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See "TAXING PROCEDURES." **The Bonds are obligations solely of the District and are not obligations of the City of Cedar Park, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District.** See "THE BONDS - Source of and Security for Payment."
- Payment Record ..... The District has never defaulted in the timely payment of principal of or interest on its outstanding obligations. See "FINANCIAL STATEMENT - Outstanding Bonds."
- Authority for Issuance ..... The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State; Chapter 1207 of the Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; an order adopted by the Board of Directors of the District on March 26, 2014 (the "Order") and a pricing certificate which was executed by the pricing officer as designated in the Order on the date of sale of the Bonds (the Order and the pricing certificate are collectively referred to herein as the "Bond Order"). See "THE BONDS – Authority for Issuance."

Use of Proceeds.....	Proceeds from the sale of the Bonds will be used to (i) establish an escrow fund to currently refund a portion of the Unlimited Tax Refunding Bonds, Series 2007 to achieve a debt service savings, and (ii) pay the costs of issuing the Bonds. See "PLAN OF FINANCING."
Bonds Authorized But Unissued.....	At an election held within the District on April 4, 1981, the voters within the District authorized a total of \$17,325,000 in bonds for water, wastewater and drainage facilities. Additionally, at an election held in the District on January 24, 1998, the voters within the District authorized a total of \$17,000,000 in bonds for water, wastewater, and drainage facilities and refunding bonds in an amount not to exceed one and one-half times the amount of bonds or other obligations issued assuming that the total amount of bonds authorized by the voters will be issued. Therefore, as a result of such elections, the District was authorized to issue a total of \$34,325,000 in bonds to acquire utility facilities and \$25,500,000 in refunding bonds. To date, the District has issued eight installments of bonds to acquire utility facilities in the aggregate principal amount of \$25,805,000, leaving \$8,520,000 in bonds authorized but unissued to acquire utility facilities. The issuance of the Bonds will utilize \$241,329.95 of the District's voted authorization of refunding bonds and, following the issuance of the Bonds, \$24,502,092.45 will remain authorized but unissued. See "FINANCIAL STATEMENT – Outstanding Bonds" and "THE BONDS – Issuance of Additional Debt."
Municipal Bond Ratings and Bond Insurance .....	Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A1" to the Bonds.
Tax Exemption.....	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal tax purposes under existing law, subject to matters described in "TAX MATTERS" herein, including the alternative minimum tax on corporations.
Qualified Tax-Exempt Obligations .....	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2014 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."
General Counsel.....	Armbrust & Brown, PLLC, Austin, Texas.
Bond Counsel.....	McCall, Parkhurst & Horton L.L.P., Austin, Texas.
Underwriter's Counsel .....	Andrews Kurth LLP, Austin, Texas
Financial Advisor .....	Public Finance Group LLC, Austin, Texas.
Verification Agent.....	Grant Thornton LLP, Minneapolis, Minnesota.

**INVESTMENT CONSIDERATION**

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

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**SELECTED FINANCIAL INFORMATION**  
(Unaudited as of April 1, 2014)

2013 Certified Assessed Valuation	\$ 317,434,492 <sup>(a)</sup>
2014 Preliminary Assessed Valuation	341,126,175 <sup>(b)</sup>
Gross Debt Outstanding (after the issuance of the Bonds)	\$ 15,360,000 <sup>(c)</sup>
Ratio of Gross Debt to 2013 Certified Assessed Valuation	4.84%
Ratio of Gross Debt to 2014 Preliminary Assessed Valuation	4.50%
2013 Tax Rate	
Debt Service	\$ 0.4747
Fire Fighting	0.1564
Maintenance	<u>0.2349</u>
<b>Total 2013 Tax Rate</b>	<b>\$ 0.8660 <sup>(d)</sup></b>
Debt Service Fund Balance (as of March 26, 2014)	\$ 1,874,709 <sup>(e)</sup>
Percentage of current tax collections (Tax Years 1997-2013)	99.27% <sup>(f)</sup>
Percentage of total tax collections (Tax Years 1997-2013)	99.76% <sup>(f)</sup>
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2015-2027, inclusive)	\$ 1,469,251
Tax Rate Required to pay Average Requirement based upon the 2013 Certified Assessed Valuation at 95% collections	\$0.49 /\$100 AV
Tax Rate Required to pay Average Requirement based upon the 2014 Preliminary Assessed Valuation at 95% collections	\$0.46 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2027)	\$ 1,564,489
Tax Rate Required to pay Maximum Requirement based upon the 2013 Certified Assessed Valuation at 95% collections	\$0.52 /\$100 AV
Tax Rate Required to pay Maximum Requirement based upon the 2014 Preliminary Assessed Valuation at 95% collections	\$0.49 /\$100 AV
Number of Connections as of March 1, 2014	
Single Family - occupied	2,156
Single Family - unoccupied	11
Residential Builder	3
Commercial	2
School	1
Fire Hydrants	0
District Connections	8
Irrigation Connections	<u>26</u>
<b>Total Number of Active Connections</b>	<b>2,207</b>
Estimated Population as of March 1, 2014	7,546 <sup>(g)</sup>

(a) Assessed valuation of the District as of January 1, 2013 as certified by the Williamson Central Appraisal District ("WCAD"). See "TAXING PROCEDURES."

(b) Preliminary assessed valuation as of January 1, 2014, as provided by WCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by WCAD.

(c) Includes the Bonds, excludes the Refunded Bonds.

(d) The District adopted the 2013 tax rate at its meeting in September 2013.

(e) Unaudited as of March 26, 2014. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.

(f) See "TAX DATA – Tax Collections."

(g) Based upon 3.5 residents per occupied single family home.

**OFFICIAL STATEMENT**  
relating to  
**\$5,840,000**  
**Block House Municipal Utility District**  
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2014**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Block House Municipal Utility District (the "District"), a political subdivision of the State of Texas (the "State"), of its \$5,840,000 Unlimited Tax Refunding Bonds, Series 2014 (the "Bonds").

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District on March 26, 2014 (the "Order") and a pricing certificate which was executed by the pricing officer on the date of sale of the Bonds, as authorized by the Order (the Order and pricing certificate are collectively referred to herein as the "Bond Order"), pursuant to Article XVI, Section 59 of the Constitution and general laws of the State, including Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207 of the Texas Government Code, as amended.

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown, PLLC, 100 Congress Avenue Suite 1300, Austin, Texas, 78701 or from the District's Financial Advisor, Public Finance Group LLC, 7004 Bee Caves Rd., Building 3, Suite 315, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Bonds will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis.

**PLAN OF FINANCING**

**Purpose**

At an election held within the District on April 4, 1981, the voters within the District authorized a total of \$17,325,000 in bonds for water, wastewater and drainage facilities. Additionally, at an election held in the District on January 24, 1998, the voters within the District authorized a total of \$17,000,000 in bonds for water, wastewater, and drainage facilities and refunding bonds in an amount not to exceed one and one-half times the amount of bonds or other obligations issued assuming that the total amount of bonds authorized by the voters will be issued. Therefore, as a result of such elections, the District was authorized to issue a total of \$34,325,000 in bonds to acquire utility facilities and \$25,500,000 in refunding bonds. To date, the District has issued eight installments of bonds to acquire utility facilities in the aggregate principal amount of \$25,805,000, leaving \$8,520,000 in bonds authorized but unissued to acquire utility facilities. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS."

The issuance of the Bonds uses \$241,329.95 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$997,907.55 of the District's voted authorization of refunding bonds, and following the issuance of the Bonds, \$24,502,092.45 of voted authorization of refunding bonds remains unissued. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS."

The Bonds are being issued to achieve a debt service savings in the years 2014 through 2027, inclusive, by currently refunding \$5,730,000 of the District's Unlimited Tax Refunding Bonds, Series 2007 (the "Refunded Bonds"). See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments – Impact on District Tax Rates" and "DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3."

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## The Refunded Bonds

The principal amounts and maturity dates of the Refunded Bonds are set forth below.

Year	Series 2007	Total
2017	\$ 25,000	\$ 25,000
2018	325,000	325,000
2019	325,000	325,000
2020	350,000	350,000
2021	370,000	370,000
2022	390,000	390,000
2023	390,000	390,000
2024	410,000	410,000
2025	435,000	435,000
2026	1,175,000	1,175,000
2027	<u>1,535,000</u>	<u>1,535,000</u>
	<b><u>\$ 5,730,000</u></b>	<b><u>\$ 5,730,000</u></b>

Redemption Date 6/30/2014

## The Remaining Outstanding Bonds

The following bonds will remain outstanding after issuance of the Bonds (collectively, the "Remaining Outstanding Bonds"):

Year	Series 2007	Series 2010	Series 2012	The Bonds	Total
2015	\$ 25,000	\$ 575,000	\$ 310,000	\$ 25,000	\$ 935,000
2016	25,000	610,000	320,000	25,000	980,000
2017	-	610,000	330,000	50,000	990,000
2018	-	375,000	345,000	345,000	1,065,000
2019	-	385,000	360,000	340,000	1,085,000
2020	-	410,000	370,000	365,000	1,145,000
2021	-	760,000	-	380,000	1,140,000
2022	-	790,000	-	395,000	1,185,000
2023	-	845,000	-	395,000	1,240,000
2024	-	880,000	-	410,000	1,290,000
2025	-	920,000	-	430,000	1,350,000
2026	-	275,000	-	1,165,000	1,440,000
2027	-	-	-	<u>1,515,000</u>	<u>1,515,000</u>
	<b><u>\$ 50,000</u></b>	<b><u>\$7,435,000</u></b>	<b><u>\$ 2,035,000</u></b>	<b><u>\$5,840,000</u></b>	<b><u>\$15,360,000</u></b>

## Escrow Agreement

The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds and direct obligations of the United States of America to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and BOKF, N.A., dba Bank of Texas, Austin, Texas (the "Escrow Agent"). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter the District will deposit with the Escrow Agent cash and direct obligations of the United States in amounts sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

The District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to their stated maturity on the redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the Bond Order authorizing the issuance of such Refunded Bonds and in accordance with State law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the Verification Report of Grant Thornton LLP, the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

## Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$5,840,000.00
Original Issue Premium	177,254.90
Accrued Interest on the Bonds	<u>10,768.33</u>
Total Sources of Funds	\$6,028,023.23
Uses of Funds:	
Escrow Deposit	\$5,788,362.37
Costs of Issuance <sup>(a)</sup>	180,434.02
Underwriter's Discount	45,924.95
Deposit to Debt Service Fund (Accrued Interest and Rounding Amount)	<u>13,301.89</u>
Total Uses of Funds	\$6,028,023.23

<sup>(a)</sup> Includes insurance premium.

## THE BONDS

### General Description

The Bonds will bear interest from May 1, 2014 and will mature on April 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on October 1, 2014 and each April 1 and October 1 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only utilizing DTC's book-entry-only system (the "Book-Entry-Only System"). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the "Paying Agent").

### Redemption

**Optional Redemption...** The Bonds maturing on and after April 1, 2021, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on April 1, 2020, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

**Notice of Redemption** . . . At least 30 calendar days prior to the date fixed for any redemption of the Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent/Registrar by the United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services. The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent/Registrar is required to select the Bonds of such maturity to be redeemed by lot or other customary methods.

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

### **DTC Redemption Provision**

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

### **Termination of Book-Entry-Only System**

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

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

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

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

## **Replacement Bonds**

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

## **Authority for Issuance**

The Bonds are issued pursuant to the terms and provisions of the Bond Order; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; and Article XVI, Section 59 of the Texas Constitution.

## **Source of and Security for Payment**

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

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

## **Payment Record**

The District has previously issued eight series of new money bonds and six series of refunding bonds, consisting of: \$2,160,000 Unlimited Tax Bonds, Series 1986; \$1,000,000 Unlimited Tax Bonds, Series 1988; \$2,520,000 Unlimited Tax Refunding Bonds, Series 1994; \$2,365,000 Unlimited Tax Bonds, Series 1995; \$700,000 Unlimited Tax Bonds, Series 1996; \$3,825,000 Unlimited Tax Bonds, Series 1999; \$5,970,000 Unlimited Tax Bonds, Series 2001; \$4,050,000 Unlimited Tax Bonds, Series 2002; \$3,424,343 Unlimited Tax Refunding Bonds, Series 2003; \$5,735,000 Unlimited Tax Bonds, Series 2003A; \$3,499,775 Unlimited Tax Refunding Bonds, Series 2005; \$5,930,000 Unlimited Tax Refunding Bonds, Series 2007; \$9,135,000 Unlimited Tax Refunding Bonds, Series 2010; and \$2,640,000 Unlimited Tax Refunding Bonds, Series 2012 (collectively, the "Previously Issued Bonds"). The District has not defaulted in the payment of the principal of or interest on the Previously Issued Bonds.

## **Flow of Funds**

The Bond Order creates, or affirms creation, establishment and maintenance by the District of a Debt Service Fund and Escrow Fund for the Bonds.

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

The Refunded Bonds and the interest due thereon will be paid on the redemption date from funds on deposit with the Escrow Agent and held in a separate Escrow Fund. See "PLAN OF FINANCING – The Refunded Bonds."

## **Defeasance of Outstanding Bonds**

*General* . . . The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined

below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order.

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

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

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

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made without amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Securities will be maintained at any particular rating category.

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

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made without amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

#### **Paying Agent/Registrar**

Principal of and semiannual interest on the Bonds will be paid by BOKF, N.A., dba Bank of Texas, Austin, Texas having its office for payment in Austin, Texas, the initial Paying Agent/Registrar (the "Paying Agent"). The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

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

### **Record Date**

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

### **Issuance of Additional Debt**

The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. At an election held within the District on April 4, 1981, the voters within the District authorized a total of \$17,325,000 in bonds for water, wastewater and drainage facilities. Additionally, at an election held in the District on January 24, 1998, the voters within the District authorized a total of \$17,000,000 in bonds for water, wastewater, and drainage facilities and refunding bonds in an amount not to exceed one and one-half times the amount of bonds or other obligations issued assuming that the total amount of bonds authorized by the voters will be issued. Therefore, as a result of such elections, the District was authorized to issue a total of \$34,325,000 in bonds to acquire utility facilities and \$25,500,000 in refunding bonds. To date, the District has issued eight installments of bonds to acquire utility facilities in the aggregate principal amount of \$25,805,000, leaving \$8,520,000 in bonds authorized but unissued to acquire utility facilities.

The issuance of the Bonds uses \$241,329.95 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$997,907.55 of the District's voted authorization of refunding bonds, and following the issuance of the Bonds, \$24,502,092.45 of voted authorization of refunding bonds remains unissued. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS."

Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Water Code authorize certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities and for the construction of roads. The District has not called an election to authorize bonds for such purposes but may consider doing so in the future. The District is also authorized to establish, operate and maintain a fire department or contract with a fire department for fire protection services. See "The District - General." Neither Texas law nor the Bond Order imposes a limitation on the amount of additional indebtedness that may be issued by the District. Any additional indebtedness issued by the District may dilute the security of the Bonds. See "INVESTMENT CONSIDERATIONS."

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

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

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

### **Specific Tax Covenants**

In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or compliance with such covenant adversely affects the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

## **Additional Covenants**

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

## **Remedies in Event of Default**

The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

## **Consolidation**

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

## **Annexation**

The District lies entirely within the extraterritorial jurisdiction of the City. Under State law, the District may be annexed by the City without the District's consent. Upon annexation, the City would assume the District's assets and obligations, including the Bonds, and dissolve the District. The District has no control over or knowledge of the annexation plans of the City. Therefore, no prediction can be made regarding the likelihood or timing of any annexation or the ability of the City to make debt service payments should annexation occur.

## **Alteration of Boundaries**

In certain circumstances under State law, the District may alter its boundaries to, upon satisfying certain conditions to deannex and then annex additional territory. No representation is made concerning the likelihood that the District would effect any further change in its boundaries.

## **Approval of the Bonds**

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

## Amendments to the Bond Order

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

### BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as

redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Financial Advisor take any responsibility for the accuracy thereof.

## **INVESTMENT CONSIDERATIONS**

### **General**

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

### **Factors Affecting Taxable Values and Tax Payments**

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

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

development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

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

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

*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 the District property owners to pay their taxes. The 2013 certified assessed valuation of the District is \$317,434,492. After issuance of the Bonds, the Maximum Requirement will be \$1,564,489 (2027) and the Average Requirement will be \$1,469,251 (2015 through 2027, inclusive). Assuming (1) no increase or decrease from the 2013 certified assessed valuation, and (2) no use of funds on hand, a tax rate of \$.52/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Requirement of \$1,564,489, and a tax rate of \$0.49/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Requirement of \$1,469,251. The District's 2014 Preliminary Assessed Valuation is \$341,126,175. Based on the assumptions above, a tax rate \$0.49/\$100 assessed valuation and a tax rate of \$0.46/\$100 assessed valuation, both at a 95% tax collection rate, would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

## **Tax Collections and Foreclosure Remedies**

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

## **Registered Owners' Remedies**

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

## **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case 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 (i) is specifically authorized to file for federal bankruptcy protection by applicable state law, (ii) is insolvent or unable to meet its debts as they mature, (iii) desires to effect a plan to adjust such debts, and (iv) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under State law a municipal utility district, such as the District, must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and

authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under State law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with State law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the registered owners could potentially and adversely impair the value of the registered owners' claims.

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

### **The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District**

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

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

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

### **Marketability**

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

### **Continuing Compliance with Certain Covenants**

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

### **Environmental Regulation**

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

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

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may

include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance of and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

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

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

The area will report semi-annually on the progress of their control measures. Under the EACs, attainment must have been demonstrated by 2007. EPA approved the photochemical modeling in support of the attainment demonstration for the 8-hour ozone standard within the Austin Area on August 15, 2005. EPA also approved the Austin EAC "CAAP" which includes control measures and demonstrates maintenance of the standard through 2012 (including a vehicle inspection and maintenance (I/M) program). These steps and any EPA/TCEQ responses could impact the economy and communities in the Austin Area.

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

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

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

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads ("TMDLs") rules can have a significant impact on the District's ability to obtain TPDES permits and maintain those permits. The District may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties.

Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and proposed two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

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

### **Forward-Looking Statements**

The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements including statements regarding the District’s expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

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

### **Bond Insurance Risks**

The District has qualified for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds, and intends to use a portion of the proceeds of the Bonds to purchase the bond insurance. The risk factors relating to the purchase of bond insurance are listed below.

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

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies that the Paying Agent exercises and the Bond Insurer’s consent may be required in connection with amendments to the Bond Order.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received by the Paying Agent pursuant to the Bond Order. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its ability to pay claims which is predicated upon a number of factors that could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency. No independent investigation into the ability of the Bond Insurer to pay claims has been made and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given.

### **Future Debt**

The District has reserved in the Bond Order the right to issue the remaining \$8,520,000 authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$8,520,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, and other obligations described in the Bond Order. See “THE SYSTEM”.

The District has voted authority to issue refunding bonds pursuant to the election proposition in an amount not to exceed one and one-half times the amount of bonds or other obligations issued assuming that the total amount of bonds authorized by the voters will be issued, which equals

\$25,500,000. The District has issued refunding bonds and has used \$756,577.60 of such authorization to date. The issuance of the Bonds will utilize \$241,329.95 of the District's voted authorization of refunding bonds and, following the issuance of the Bonds, \$24,502,092.45 will remain authorized but unissued.

**Future and Proposed Legislation**

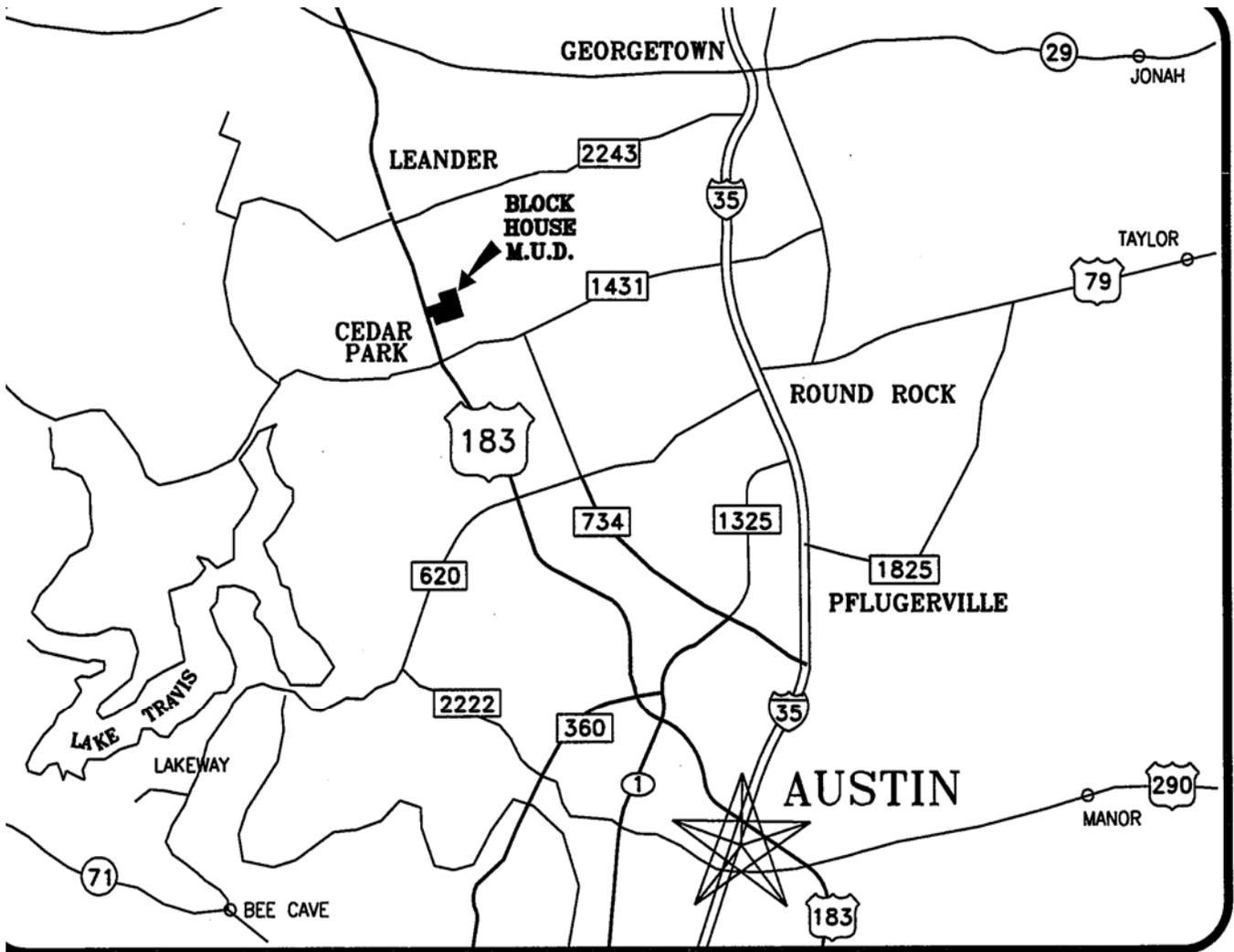
Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal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

**Drought Conditions**

Central Texas, like other areas of the State, is experiencing drought conditions. The District has adopted a water conservation plan and has implemented water use restrictions applicable to the residents of and commercial customers in the District. The City of Cedar Park, Texas provides water to the District in amounts sufficient to service the residents and other customers of the District; however, as drought conditions continue water usage, rates and water revenues could be impacted.

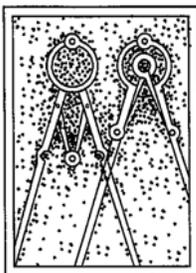
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LOCATION MAP



LOCATION MAP

N.T.S.



**GRAY & JANSING & ASSOCIATES, INC.**

Consulting Engineers

8217 Shoal Creek Boulevard, Suite 200

Austin, Texas 78757-7592

(512)452-0371 FAX(512)454-9933

TBPE FIRM #2946

## THE DISTRICT

### General

The District is a political subdivision of the State of Texas, created by an order of the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the "Commission"), on January 12, 1978 and confirmed at an election held within the District on April 4, 1981, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide water, wastewater and storm drainage to the approximately 715 acres within its boundaries, all of which lies within Williamson County, Texas.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal service and park and recreation facilities and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, or contract with a fire protection provider for fire protection services, if approved by the voters of the District and the Commission. The District provides for waste collection and disposal services through a contract with a private waste disposal company.

In 2007, the District implemented a plan for the provision of fire-fighting services within the District, as authorized by Section 49.351 of the Texas Water Code and an election held within the District on May 12, 2007. Pursuant to this plan, the District has entered into a fire protection services agreement with the City of Cedar Park (the "City") under which the District's residents pay a service rate which varies depending upon the City's fire protection expenditures and City's fire department's service area population. The fire protection service rate for the 2013-2014 fiscal year is \$18.97 per District water and wastewater customer per month. The District may make the payments under the fire protection services agreement through: (i) the levy of a contract tax levied on all taxable property within the District; (ii) a monthly fee; (iii) any of the funds lawfully available to the District, or a combination of (i), (ii), and (iii). The initial term of the fire protection services contract expired on December 31, 2012, and it has been automatically extended for two additional one year terms. The current term expires December 31, 2014. Unless the contract is sooner terminated, which requires one year's prior written notice, the contract will continue to be extended for three additional one year terms until December 31, 2017, or the contract may be further extended by written agreement of the parties. If an emergency services district which includes the District is created, the fire protection services agreement will be terminated on the date such emergency services district begins providing fire protection services.

### Management of the District

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Terence M. Davis	President	2014	8 Years
Cecilia A. Roberts	Vice President	2016	29 Years
Debra Junk	Secretary	2014	8 Years
Ursula Logan	Assistant Secretary	2014	2 Years
Steve A. Bennett	Assistant Secretary	2016	26 Years

### Consultants

#### Tax Assessor/Collector

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

#### General Manager

The District contracts with Crossroads Utility Services, LLC ("Crossroads") to serve as operator for the District. Crossroads serves in a similar capacity for 28 other special districts in the Austin metropolitan area.

#### Bookkeeper

Municipal Accounts & Consulting, L.P. ("MAC"), Certified Public Accountants, is charged with the responsibility of providing bookkeeping services for the District. MAC serves in a similar capacity for 25 other special districts in the Austin metropolitan area.

## **Engineer**

The District's consulting engineer is Gray Engineering, Inc. ("Gray" or the "Engineer"). Gray serves as consulting engineer to 32 other special districts in the Austin and El Paso metropolitan areas.

## **Financial Advisor**

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

## **Bond Counsel**

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

## **General Counsel**

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

## **Location**

The District encompasses approximately 717 acres of land in southwestern Williamson County, of which approximately 586 are developable and 555 have been developed with internal waster distribution, wastewater collection and storm drainage facilities. The District is situated approximately 23.5 miles north of the City of Austin's central business district. The entire District lies within the boundaries of the Leander Independent School District and the extraterritorial jurisdiction of the City of Cedar Park. Access to the District is currently provided by US 183 North to Block House Drive as well as by the U.S. 183A Toll Road extending from US 183 at Ranch Road 620 to US 183 north of Leander.

## **Historical and Current Status of Development**

Development within the District began in 1980 with the development of the initial sections of the Block House Creek Subdivision. From 1980 through 1989 development and the construction of single-family homes continued intermittently. During 1989 and 1990, all of the then-current developer's approximately 365 vacant lots and remaining undeveloped land within the District were foreclosed upon by Texas Commerce Bank – Austin, National Association ("TCBA"). In addition, TCBA foreclosed on approximately 584 acres adjacent to the District and within the City of Cedar Park. Beginning in 1989, TCBA and its subsidiary Lavaca National Properties, Inc. marketed for sale the lots and undeveloped acreage and, in 1995, title to the property owned by TCBA and Lavaca was transferred to TCBA.

On December 20, 1995, TCBA conveyed all its remaining acreage in the District and the adjacent area to Continental Homes of Texas, LP ("Continental"). The total acreage conveyed to Continental was approximately 388 acres, including approximately 350 acres within the District. Continental developed the majority of its 350 acres within the District as residential single-family lots and sold the commercial reserves.

The 31 acres sold by Continental as commercial reserves are owned by Paver Family Enterprises L.P. The District makes no representation that such acreage will ever be developed as commercial improvements.

As of April 1, 2014, development within the District included 2,167 completed single-family homes, no homes under construction and 11 vacant developed single-family lots, a day care center, Block House Elementary School, 31 acres undeveloped commercial reserves, and 38.45 acres of parkland including swimming pools, playgrounds, trails, and sports fields.

## **Future Development**

The instigation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, the general and other economic conditions which would affect the Landowner's ability to market its land to commercial developers as described in this Official Statement under the caption "INVESTMENT CONSIDERATIONS". The District's engineer estimates that the \$8,520,000 authorized bonds which remain unissued should be sufficient to reimburse the Landowner for the utility facilities necessary to provide utility service to the remaining approximately 31 acres of undeveloped but potentially developable acres within the District. To date, the District has not entered into a reimbursement contract with the Landowner. See "THE BONDS - Future Debt." The Landowner is under no obligation to complete any commercial development, if begun, and may modify or discontinue development plans in its sole discretion. Accordingly, the District makes no representation that future development will occur within the District.

## THE SYSTEM

### Regulation

The water, wastewater and storm drainage facilities, the purchase, acquisition and construction of which have been permanently financed by the District with the proceeds of the bonds previously issued by the District, 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 Commission. According to the Engineer, the design of all such facilities has been approved by all governmental agencies which have jurisdiction over the District.

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among other, the Environmental Protection Agency and the Commission. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

### Water Supply and Distribution

The District currently receives its water from the City of Cedar Park on a wholesale basis pursuant to a Water Supply Contract dated March 10, 1995 which is effective for a period of 40 years. The City of Cedar Park obtains its water supply from Lake Travis. According to the City of Cedar Park's engineer, the City of Cedar Park operates a 23 million gallon per day (mgd) surface water treatment facility west of the City of Cedar Park (the "Cedar Park Water Plant"). Treated water is transported from the Cedar Park Water Plant to the District's distribution system by a series of booster pumps and transmission lines which are owned and operated by Cedar Park. The District is responsible for reading the individual meters and the retail billing of each District customer. The District's engineer believes that, based upon current land use projections and the commitment of service as provided for in the Cedar Park Agreement, the Cedar Park Water Plant should have sufficient capacity to serve the District at ultimate development.

### Wastewater Collection and Treatment

Originally, wastewater treatment within the District was provided by a 200,000 gallon-per-day ("gpd") interim wastewater treatment plant operating under the authority and conditions of Commission Permit No. 11972-01. The first temporary 100,000 gpd phase was constructed in 1980-81 and funded by the Outstanding Bonds. The second temporary 100,000 gpd phase was added in 1985 under the same permit and with the same discharge parameters. This second plant was leased until the District's permanent treatment facilities, as described herein, were completed. The installation and design of the leased plant was also funded by a portion of the Outstanding Bonds.

The District, in September 2002, entered into a Wholesale Wastewater Service Contract with the City of Cedar Park, under which the District has purchased capacity in the City of Cedar Park's wastewater system to serve all existing development and will purchase capacity to serve future development and the City of Cedar Park has agreed to provide all wastewater treatment capacity required for the District's ultimate build-out. The Wholesale Wastewater Services Contract has a term of 30 years.

### Drainage System

The storm drainage system that serves the District consists of curb and gutter streets and storm sewers that collect storm water runoff for outfall into Block House Creek. The facilities are designed in accordance with Williamson County and City of Cedar Park criteria.

### 100-Year Flood Plain

According to U.S.G.S. topographic maps and Federal Emergency Management Agency Flood Insurance Rate Maps, the District is relatively flat with elevations ranging from 885 to 978 feet above mean sea level. The land within the District slopes generally from west to east. The District lies virtually on the headwaters of Block House Creek and approximately 65 acres of the District lie within the 100-year flood plain. This acreage has been planned as green space and will not be used for development.

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## Water and Wastewater Operations

### Rate and Fee Schedule - Table 1

The Board of Directors establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the rates and fees for the District's water and sewer service which have been in effect since August 28, 2013.

#### Water (Monthly Billing)

Base rate per Single-family or Duplex .....	\$49.66
0-7,000 gallons.....	\$3.88/1,000
7,001-14,000 gallons .....	4.12/1,000
14,001-20,000 gallons .....	4.55/1,000
Over 20,001 gallons .....	5.00/1,000

#### Wastewater (Monthly Billing)

Rate per 1,000 gallons .....	\$4.00/1,000
------------------------------	--------------

#### Monthly Water Rates for Irrigation Meters

0-7,000 gallons.....	\$3.88/1,000
7,001-14,000 gallons .....	4.12/1,000
14,001-20,000 gallons .....	4.55/1,000
Over 20,001 gallons .....	5.00/1,000

#### Tap Fees

<u>Meter Size</u>	<u>Water</u>	<u>Tap Fee</u>	<u>Wastewater</u>
5/8"	\$ 600		\$ 600
3/4"	800		800
1"	1,300		1,300
1 1/2"	2,550		2,550
2"	4,050		4,050
3"	7,550		7,550
4"	12,550		12,550
Over 4"	Determined by the District prior to connection		Determined by the District prior to connection

The District's water tap fees for irrigation meters are as follows:

Up to and including 2" meter .....	\$600.00 plus actual cost of meter
Over 2" meter .....	Determined by the District prior to connection

Under the District's Water Supply Contract with the City of Cedar Park, all new customers on the District's water system must pay the impact fee established by the City of Cedar Park for new in-city customers for water service. Under the District's Wholesale Wastewater Service Contract, all new customers on the District's wastewater system must pay the impact fee established by the City of Cedar Park for new in-city customers of wastewater service.

#### Water

Cedar Park Community Impact Fees..... \$2,250 per living unit equivalent

#### Wastewater

Cedar Park Community Impact Fees..... \$2,000 per living unit equivalent

## Operating Revenues and Expenses Statement - Table 2

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

	Fiscal Year Ended					
	2/28/14 <sup>(a)</sup>	9/30/13 <sup>(b)</sup>	9/30/12 <sup>(b)</sup>	9/30/11 <sup>(b)</sup>	9/30/10 <sup>(b)</sup>	9/30/09 <sup>(b)</sup>
<b>REVENUES</b>						
Property Taxes, including penalties	\$ 1,212,060	\$ 1,148,677	\$ 1,193,485	\$ 1,113,388	\$ 1,040,966	\$ 1,013,424
Water, WW & Garbage, including penalties	919,266	2,297,434	2,306,886	2,346,679	2,075,414	2,142,715
Tap Fees	1,746	1,993	9,749	1,575	-	5,022
Inspection/Review Fees	50	-	-	-	-	376
Interest	7,060	14,966	15,889	17,913	30,046	30,770
Swimming Pool and Other	141,922	289,867	289,943	264,502	85,305	50,277
<b>TOTAL REVENUES</b>	<b>\$ 2,282,104</b>	<b>\$ 3,752,937</b>	<b>\$ 3,815,952</b>	<b>\$ 3,744,057</b>	<b>\$ 3,231,731</b>	<b>\$ 3,242,584</b>
<b>EXPENDITURES</b>						
Bulk Water & Wastewater Purchases	\$ 347,828	\$ 919,965	\$ 1,014,070	\$ 1,168,953	\$ 1,157,029	\$ 992,778
Garbage Collection	175,375	394,779	368,416	335,878	335,982	331,203
Park & Pool Expenditures	253,858	707,277	574,649	653,341	513,326	447,185
Utilities	21,362	54,031	56,986	58,026	-	109,248
Repairs and Maintenance	34,466	128,918	78,907	64,241	-	143,237
Management Fees	95,603	227,314	211,647	194,941	193,490	222,166
Legal Fees	43,785	114,184	156,823	156,085	132,311	151,896
Engineering Fees	7,057	57,660	35,906	67,595	72,765	22,341
Bookkeeping Fees	15,075	32,623	29,225	28,800	23,322	-
Audit Fees	15,500	15,000	15,000	13,995	25,000	22,000
Financial Advisory Fees	532	514	-	703	-	376
Fire Services Fees	484,041	471,635	432,535	437,541	424,183	375,298
Security Services	29,922	95,585	93,370	87,874	83,442	92,698
Tax Appraisal/Collection Fees	10,436	9,412	9,708	8,925	8,945	9,102
Directors Fees & related Payroll Taxes	13,779	33,587	33,318	34,071	33,749	35,256
Insurance	8,148	7,324	7,476	6,978	8,433	5,738
Office Expenditures	19,575	48,441	48,940	33,846	77,506	6,958
Seminars & Travel	974	9,222	9,513	258	-	40,062
Other	11,944	77,531	56,933	85,013	101,812	86,468
Capital Outlay	32,469	22,609	262,205	126,442	87,534	6,591
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,621,729</b>	<b>\$ 3,427,611</b>	<b>\$ 3,495,627</b>	<b>\$ 3,563,506</b>	<b>\$ 3,278,829</b>	<b>\$ 3,100,601</b>
<b>NET REVENUE / (DEFICIT)</b>	<b>\$ 660,375</b>	<b>\$ 325,326</b>	<b>\$ 320,325</b>	<b>\$ 180,551</b>	<b>\$ (47,098)</b>	<b>\$ 141,983</b>
<b>Beginning Fund Balance</b>	<b>\$ 2,863,461</b>	<b>\$ 2,538,135</b>	<b>\$ 2,217,810</b>	<b>\$ 1,883,613</b>	<b>\$ 1,930,711</b>	<b>\$ 1,859,976</b>
Plus / (Less): Fund Transfers	-	-	-	153,646	-	(71,248)
<b>Ending Fund Balance</b>	<b>\$ 3,523,836</b>	<b>\$ 2,863,461</b>	<b>\$ 2,538,135</b>	<b>\$ 2,217,810</b>	<b>\$ 1,883,613</b>	<b>\$ 1,930,711</b>

(a) Unaudited. As of February 28, 2014. Represents 5 months of the District's fiscal year.

(b) Audited.

**DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3**

**Block House Municipal Utility District  
\$5,840,000  
Unlimited Tax Refunding Bonds, Series 2014  
Dated Date: May 1, 2014  
First Interest Payment Due: October 1, 2014**

<b>Year Ending 31-Dec</b>	<b>Current Debt Service Requirement</b>	<b>Less Refunded Debt Service</b>	<b>The Bonds</b>				<b>Principal and Interest</b>	<b>Total Debt Service Requirements</b>
			<b>Principal (Due 4/01)</b>	<b>Interest (Due 4/01)</b>	<b>Interest (Due 10/01)</b>	<b>Total</b>		
2014	\$ 1,487,573	\$ -	\$ -	\$ -	\$ 76,917	\$ 76,917	\$ 76,917	\$ 1,564,489
2015	1,476,098	236,073	25,000	92,300	92,050	184,350	209,350	1,449,375
2016	1,495,223	236,073	25,000	92,050	91,800	183,850	208,850	1,468,000
2017	1,474,748	261,073	50,000	91,800	91,300	183,100	233,100	1,446,775
2018	1,518,748	560,073	345,000	91,300	87,850	179,150	524,150	1,482,825
2019	1,504,973	547,073	340,000	87,850	83,600	171,450	511,450	1,469,350
2020	1,524,623	559,073	365,000	83,600	78,125	161,725	526,725	1,492,275
2021	1,481,273	565,073	380,000	78,125	72,425	150,550	530,550	1,446,750
2022	1,485,073	570,273	395,000	72,425	66,500	138,925	533,925	1,448,725
2023	1,491,578	554,673	395,000	66,500	60,575	127,075	522,075	1,458,980
2024	1,495,678	558,683	410,000	60,575	54,425	115,000	525,000	1,461,995
2025	1,507,246	566,873	430,000	54,425	46,900	101,325	531,325	1,471,699
2026	1,544,645	1,288,820	1,165,000	46,900	26,513	73,413	1,238,413	1,494,238
2027	1,567,235	1,599,470	1,515,000	26,513	-	26,513	1,541,513	1,509,278
	<b><u>\$ 21,054,709</u></b>	<b><u>\$8,103,298</u></b>	<b><u>\$5,840,000</u></b>	<b><u>\$ 944,363</u></b>	<b><u>\$ 928,979</u></b>	<b><u>\$1,873,342</u></b>	<b><u>\$7,713,342</u></b>	<b><u>\$ 20,664,753</u></b>

**FINANCIAL STATEMENT**  
**(Unaudited as of April 1, 2014)**

**Assessed Value - Table 4**

2013 Certified Assessed Valuation	\$	317,434,492	(a)
2014 Preliminary Assessed Valuation		341,126,175	(b)
 Gross Debt Outstanding (after the issuance of the Bonds)	 \$	 15,360,000	 (c)
Ratio of Gross Debt to 2013 Certified Assessed Valuation		4.84%	
Ratio of Gross Debt to 2014 Preliminary Assessed Valuation		4.50%	
 2013 Tax Rate			
Debt Service	\$	0.4747	
Fire Fighting		0.1564	
Maintenance		0.2349	
<b>Total 2013 Tax Rate</b>	<b>\$</b>	<b>0.8660</b>	<b>(d)</b>
 Debt Service Fund Balance (as of March 26, 2014)	 \$	 1,874,709	 (e)
		Area of District: 717 acres	
		Estimated Population as of April 1, 2014 – 7,546	(f)

- (a) Assessed valuation of the District as January 1, 2013 as certified by the Williamson Central Appraisal District (“WCAD”). See "TAXING PROCEDURES."
- (b) Preliminary assessed valuation as of January 1, 2014, as provided by WCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by WCAD.
- (c) Includes the Bonds, excludes the Refunded Bonds.
- (d) The District levied the 2013 total tax rate at its meeting in September 2013.
- (e) Unaudited as of March 26, 2014. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) Based upon 3.5 residents per occupied single family home.

**Unlimited Tax Bonds Authorized but Unissued - Table 5**

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Unissued
4/4/1981	Water, Sanitary Sewer & Drainage	\$ 17,325,000	\$ 17,325,000	\$ -
1/24/1998	Water, Sanitary Sewer & Drainage	17,000,000	8,480,000	8,520,000
1/24/1998	Refunding	25,500,000 (a)	997,908 (a)	24,502,092

- (a) The proposition approved by the voters authorized the District to issue refunding bonds in an amount not to exceed one and one-half times the par amount of bonds issued assuming that the total amount of bonds authorized by the voters will be issued, which equals \$25,500,000. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds after deducting Underwriter’s discount is also counted against the District’s refunding authorization. The District has previously used \$756,577.60 of the total amount of refunding bonds authorized. The issuance of the Bonds uses \$241,329.95 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$997,907.55 of the District’s voted authorization of refunding bonds and, following the issuance of the Bonds, \$24,502,092.45 of voted authorization of refunding bonds remains unissued.

## Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds <sup>(a)</sup>
<b>A. New Money Bonds</b>				
11/1/1986	Water, Sanitary Sewer & Drainage	1986	\$ 2,160,000	\$ -
10/1/1988	Water, Sanitary Sewer & Drainage	1988	1,000,000	-
7/1/1995	Water, Sanitary Sewer & Drainage	1995	2,365,000	-
7/1/1996	Water, Sanitary Sewer & Drainage	1996	700,000	-
9/1/1999	Water, Sanitary Sewer & Drainage	1999	3,825,000	-
7/1/2001	Water, Sanitary Sewer & Drainage	2001	5,970,000	-
12/1/2002	Water, Sanitary Sewer & Drainage	2002	4,050,000	-
9/1/2003	Water, Sanitary Sewer & Drainage	2003A	5,735,000	-
	<b>Subtotal</b>		<b>\$ 25,805,000</b>	<b>\$ -</b>
<b>B. Refunding Bonds</b>				
7/1/1994	Refunding	1994	\$ 2,520,000	\$ -
2/1/2003	Refunding	2003	3,424,343	-
4/1/2005	Refunding	2005	3,499,775	-
6/1/2007	Refunding	2007	5,930,000	50,000
10/1/2010	Refunding	2010	9,135,000	7,435,000
3/1/2012	Refunding	2012	2,640,000	2,035,000
5/1/2014	Refunding	2014	5,840,000	5,840,000 <sup>(b)</sup>
	<b>Subtotal</b>		<b>\$ 32,989,118</b>	<b>\$ 15,360,000</b>
	<b>Total</b>		<b>\$ 58,794,118</b>	<b>\$ 15,360,000</b>

(a) Includes the Bonds and excludes the Refunded Bonds.

(b) The Bonds.

## Cash and Investment Balances - Table 7 <sup>(a)</sup>

General Fund	\$ 3,456,964
Debt Service Fund	1,874,709 <sup>(b)</sup>
Capital Projects Fund	173,082

(a) Unaudited as of March 26, 2014.

(b) Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.

## Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured

by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

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

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and the ending market value and the fully accrued interest for the reporting period, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and

procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**Current Investments - Table 8**

The District, as of March 26, 2014, is invested in Money Markets, TexPool and Certificates of Deposit. This investment portfolio is generally representative of the District's investment practices. GASB Statement No. 3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

<b>Investment Value as of March 26, 2014</b>		
Cash	\$	23,077
Money Market		60,141
TexPool		2,421,537
Certificates of Deposit		<u>3,000,000</u>
<b>Total Investment</b>	<b>\$</b>	<b>5,504,755</b>

**Estimated Overlapping Debt Statement**

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

<b>Taxing Body</b>	<b>Gross Debt</b>		<b>% of Overlapping Net Debt</b>	<b>Amount of Overlapping Net Debt</b>
	<b>Amount</b>	<b>As of</b>		
Williamson County	\$ 611,589,787	3/1/2014	0.928%	\$ 5,675,868
Austin Community College	87,117,379	3/1/2014	0.271%	236,336
Leander Independent School District	910,325,455	3/1/2014	2.329%	<u>21,204,755</u>
<b>TOTAL ESTIMATED OVERLAPPING DEBT</b>				<b>\$ 27,116,959</b>
The District <sup>(a)</sup>	\$ 15,360,000	5/1/2014	100.000%	<u>\$ 15,360,000</u>
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b>\$ 42,476,959</b>
<b>Ratio of Estimated and Overlapping Debt to 2013 Certified Assessed Valuation</b>				<b>13.38%</b>
<b>Ratio of Estimated and Overlapping Debt to 2014 Estimated Assessed Valuation</b>				<b>12.45%</b>

(a) Includes the Bonds; excludes the Refunded Bonds.

**Overlapping Taxes for 2013**

Overlapping Entity	2013 Tax Rate Per	
	\$100 Assessed Valuation Williamson County	Average Tax Bill <sup>(a)</sup> Williamson County
Williamson County	\$0.449029	\$ 643
Austin Community College	0.094900	136
Leander Independent School District	1.511900	2,166
The District	<u>0.866000</u>	<u>1,241</u>
<b>Total</b>	<b>\$2.921829</b>	<b>\$ 4,185</b>

(a) Based upon the 2013 average single-family home value of \$143,249 as provided by WCAD.

**TAX DATA**

**Classification of Assessed Valuation - Table 9**

Type of Property	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Single Family	\$ 314,951,840	97.78%	\$ 303,873,952	97.53%	\$ 308,967,227	97.61%
Commercial	1,573,931	0.49%	1,557,590	0.50%	1,463,455	0.46%
Utilities	1,095,400	0.34%	1,766,232	0.57%	1,795,224	0.57%
Acreage	1,060	0.00%	1,060	0.00%	1,060	0.00%
Real Inventory	-	0.00%	-	0.00%	50,325	0.02%
Vacant Lot	3,778,688	1.17%	3,777,968	1.21%	3,600,133	1.14%
Tangible Personal, Business	<u>718,027</u>	<u>0.22%</u>	<u>603,388</u>	<u>0.19%</u>	<u>660,993</u>	<u>0.21%</u>
<b>Total</b>	<b><u>\$ 322,118,946</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 311,580,190</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 316,538,417</u></b>	<b><u>100.00%</u></b>

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## Tax Collections - Table 10

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

Tax Year	Assessed Valuation <sup>(a)</sup>	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
1997	\$ 90,931,147	\$0.9000	\$ 818,380	\$ 809,942	98.97%	\$ 814,155	99.48%	9/30/1998 <sup>(b)</sup>
1998	96,310,849	0.9000	866,798	852,920	98.40%	858,067	98.99%	9/30/1999 <sup>(b)</sup>
1999	115,423,159	0.8500	981,097	973,140	99.19%	989,929	100.90%	9/30/2000 <sup>(b)</sup>
2000	181,871,109	0.7805	1,419,504	1,417,796	99.88%	1,417,424	99.85%	9/30/2001 <sup>(b)</sup>
2001	143,958,665	0.8300	1,194,857	1,192,693	99.82%	1,195,251	100.03%	9/30/2002 <sup>(b)</sup>
2002	230,746,080	0.7705	1,777,899	1,764,046	99.22%	1,773,225	99.74%	9/30/2003 <sup>(b)</sup>
2003	246,633,976	0.8200	2,022,399	2,001,824	98.98%	2,014,726	99.62%	9/30/2004 <sup>(b)</sup>
2004	268,378,558	0.8200	2,200,704	2,188,803	99.46%	2,209,387	100.39%	9/30/2005 <sup>(b)</sup>
2005	270,425,854	0.8200	2,217,492	2,203,609	99.37%	2,213,612	99.83%	9/30/2006 <sup>(b)</sup>
2006	277,510,221	0.8624	2,393,248	2,374,938	99.23%	2,389,031	99.82%	9/30/2007 <sup>(b)</sup>
2007	300,444,913	0.8599	2,583,526	2,577,142	99.75%	2,594,787	100.44%	9/30/2008 <sup>(b)</sup>
2008	319,494,593	0.8460	2,702,924	2,680,654	99.18%	2,685,089	99.34%	9/30/2009 <sup>(b)</sup>
2009	316,013,235	0.8460	2,673,472	2,662,782	99.60%	2,682,555	100.34%	9/30/2010 <sup>(b)</sup>
2010	316,379,113	0.8460	2,673,495	2,666,653	99.74%	2,675,112	100.06%	9/30/2011 <sup>(b)</sup>
2011	312,464,920	0.8660	2,706,236	2,699,193	99.74%	2,702,545	99.86%	9/30/2012 <sup>(b)</sup>
2012	306,820,193	0.8660	2,656,201	2,645,075	99.58%	2,649,187	99.74%	9/30/2013 <sup>(b)</sup>
2013	317,434,492	0.8660	2,747,037	2,678,575	97.51%	2,678,575	97.51%	9/30/2014 <sup>(c)</sup>

- (a) Assessed Valuation reflects the adjusted value at September 30<sup>th</sup> of each respective year as included in the audited financial statement.  
(b) Audited.  
(c) Unaudited. Reflects collections through February 28, 2014. Taxes were due January 31, 2014.

## District Tax Rates - Table 11

Tax Rate per \$100 Assessed Valuation	2013	2012	2011	2010	2009	2008
Debt Service	\$ 0.4747	\$ 0.4905	\$ 0.4835	\$ 0.5190	\$ 0.5193	\$ 0.5277
Fire Fighting	0.1564	0.1542	0.1386	0.1384	0.1339	-
Maintenance and Operations	0.2349	0.2213	0.2439	0.1886	0.1928	0.3183
<b>Total</b>	<b>\$ 0.8660</b>	<b>\$ 0.8660</b>	<b>\$ 0.8660</b>	<b>\$ 0.8460</b>	<b>\$ 0.8460</b>	<b>\$ 0.8460</b>

## Tax Rate Limitation

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

## Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds and the Bonds, and any tax bonds which may be issued in the future. At an election held on April 4, 1981, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2013 maintenance and operations tax of \$0.2349/\$100 assessed valuation.

**Principal Taxpayers - Table 12**

The following list of principal taxpayers was provided by WCAD based on the 2013, 2012 and 2011 tax rolls of the District, which reflect the appraised value of taxable property owed as of January 1, of each year shown.

Name	Type of Property	2013	2012	2011
Stoneridge Capital Partners Ltd.	Land and Improvements	\$ 3,587,968	\$ 3,587,968	\$ 3,514,745
Perdernalles Electric Cooperative Inc.	Utility	1,659,110	1,530,341	1,516,729
Paver Family Enterprises L.P.	Commercial	1,573,931	1,557,590	1,463,455
Individual Homeowner	Land and Improvements	655,131	629,009	642,391
Secretary of Housing and Urban Development	Land and Improvements	(a)	(a)	413,050
Individual Homeowner	Land and Improvements	409,892	(a)	(a)
Individual Homeowner	Land and Improvements	355,732	344,552	354,534
Individual Homeowner	Land and Improvements	(a)	312,380	315,033
Individual Homeowner	Land and Improvements	300,625	(a)	302,467
Individual Homeowner	Land and Improvements	(a)	289,250	(a)
GCC Properties I L.P.	Commercial	(a)	(a)	300,415
Individual Homeowner	Land and Improvements	(a)	(a)	299,288
Individual Homeowner	Land and Improvements	430,371	420,534	(a)
Individual Homeowner	Land and Improvements	408,700	381,008	(a)
Individual Homeowner	Land and Improvements	299,627	285,921	(a)
<b>Total</b>		<b><u>\$ 9,681,087</u></b>	<b><u>\$ 9,338,553</u></b>	<b><u>\$ 9,122,107</u></b>
<b>Percent of Assessed Valuation</b>		<b>3.05%</b>	<b>3.04%</b>	<b>2.92%</b>

(a) Not a principal taxpayer for respective year.

**Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuations from the 2013 certified assessed valuation and 2014 preliminary assessed valuation, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments - *Impact on District Tax Rates.*"

Average Requirement on the Bonds and the Outstanding Bonds (2015 through 2027) .....	\$1,469,251
\$0.49 Tax Rate on 2013 Certified Assessed Valuation of \$317,434,492 @ 95% collections produces.....	\$1,477,658
\$0.46 Tax Rate on 2014 Preliminary Assessed Valuation of \$341,126,175 @ 95% collections produces.....	\$1,490,721
Maximum Requirement on the Bonds and the Outstanding Bonds (2027) .....	\$1,564,489
\$0.52 Tax Rate on 2013 Certified Assessed Valuation of \$317,434,492 @ 95% collections produces.....	\$1,568,126
\$0.49 Tax Rate on 2014 Preliminary Assessed Valuation of \$341,126,175 @ 95% collections produces.....	\$1,587,942

## Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/14.....	\$1,564,489 <sup>(a)</sup>
Audited Debt Service Fund Balance as of 9/30/13.....	\$703,478 <sup>(b)</sup>
2013 Tax Levy @ 95% collections produces.....	<u>1,431,519</u> <sup>(c)</sup>
Total Available for Debt Service.....	<u>\$2,134,997</u>

- (a) Interest payments on the Bonds commences October 1, 2014.  
(b) Audited. Represents fund balance after all 2012 debt service requirements have been paid.  
(c) The District currently levied a 2013 debt service tax rate of approximately \$0.4747.

## TAXING PROCEDURES

### Authority to Levy Taxes

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

### Property Tax Code and County Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Williamson Central Appraisal District has the responsibility for appraising property for all taxing units within Williamson County, including the District. Such appraisal values are subject to review and change by the Williamson Central Appraisal Review Board (the "Appraisal Review Board").

### Property Subject to Taxation by the District

**General:** Except for certain exemptions provided by State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. The District's tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

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

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

**Freeport Goods and Goods-in-Transit Exemption:** Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for “freeport property,” which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. A “Goods-in-Transit” exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. Freeport goods and goods-in-transit are not exempt from taxation by the District.

## **Valuation of Property for Taxation**

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

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

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

## **District and Taxpayer Remedies**

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

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

## **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become

delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

### **Rollback of Operation and Maintenance Tax Rate**

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average 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.

### **District's Rights In The Event Of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2013". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

### **Effect of FIRREA on Tax Collections**

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

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

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

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish the Underwriter a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to governmental immunity, bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. See "APPENDIX B - Form of Bond Counsel Opinion." Bond Counsel was not requested to participate, and did not take part, in the preparation

of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions "SALE AND DISTRIBUTION OF THE BONDS – Securities Laws," "PLAN OF FINANCING – Escrow Agreement," "THE BONDS" (except for the subcaptions "DTC Redemption Provision," "Payment Record" and "Remedies in Event of Default"), "LEGAL MATTERS – Legal Opinions," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings") to determine that the information relating to the Bonds and the Bond Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews Kurth LLP, Austin, Texas.

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

### **No-Litigation Certificate**

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

### **VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS**

Grant Thornton LLP, a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the District its verification report indicating that it has performed certain procedures to verify, in accordance with standards established by the American Institute of Certified Public Accountants, the arithmetical accuracy of the information provided by the Financial Advisor relating to (a) the sufficiency of the anticipated receipts from the Escrowed Securities, together with the initial cash deposit, if any, to pay, when due, the principal and interest on the Refunded Bonds and (b) the "Yield" on the Escrowed Securities and on the Bonds. Such computations will be completed using certain assumptions and information provided by Southwest Securities on behalf of the District. Grant Thornton LLP has restricted its procedures to recalculating the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the excludability from federal income taxation of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

### **TAX MATTERS**

#### **Opinion**

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the financed or refinanced with the proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

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

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

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

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

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

### **Collateral Federal Income Tax Consequences**

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

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

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

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for non-corporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer’s alternative minimum taxable income,” if the amount of such alternative minimum tax is greater than the taxpayer’s regular income tax for the taxable year.

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

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

## State, Local and Foreign Taxes

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

## Qualified Tax-Exempt Obligations for Financial Institutions

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

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

## CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has 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 certain information to the Municipal Securities Rulemaking Board (“MSRB”). Information will be available free of charge by the MSRB via the Electronic Municipal Market Access (“EMMA”) system at [www.emma.msrb.org](http://www.emma.msrb.org).

## Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 12 and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with

the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### **Notice of Certain Events**

The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws; (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "– Annual Reports."

### **Availability of Information from MSRB**

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB and will be available to the public free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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

### **Limitations and Amendments**

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

The District may amend its continuing disclosure from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (i) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (ii) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter or purchaser from lawfully purchasing or selling the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

## Compliance with Prior Undertakings

During the past five years, the District has been in compliance with all material provisions of its continuing disclosure undertakings in accordance with the Rule.

## FINANCIAL ADVISOR

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

## OFFICIAL STATEMENT

### Preparation

The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See "THE DISTRICT". The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in the preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT" and "THE SYSTEM" - District Engineer; "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District, "FINANCIAL STATEMENT" - Williamson Central Appraisal District; "FINANCIAL STATEMENT - Estimated Overlapping Debt Statement" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water and Wastewater Operations" - Records; "THE DISTRICT - Management of the District" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except "Compliance with Prior Undertakings") - McCall, Parkhurst & Horton L.L.P.

### Consultants

In approving this Official Statement, the District has relied upon the following consultants:

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 Gray Engineering, Inc., and has been included in reliance upon the authority of said firm in the field of civil engineering.

The Auditor: The District's financial statements for the fiscal year ended September 30, 2013 were prepared by McCall, Gibson, Swedlund, Barfoot P.L.L.C. Certified Public Accountants. See "Appendix A" for a copy of the District's September 30, 2013 final audited financial statements.

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

Tax Assessor/Collector: The information contained in this Official Statement relating to tax collection rates, and principal taxpayers has been provided by Ms. Debra Hunt in reliance upon her authority in the field of tax assessing and collecting.

### Annual Audits

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

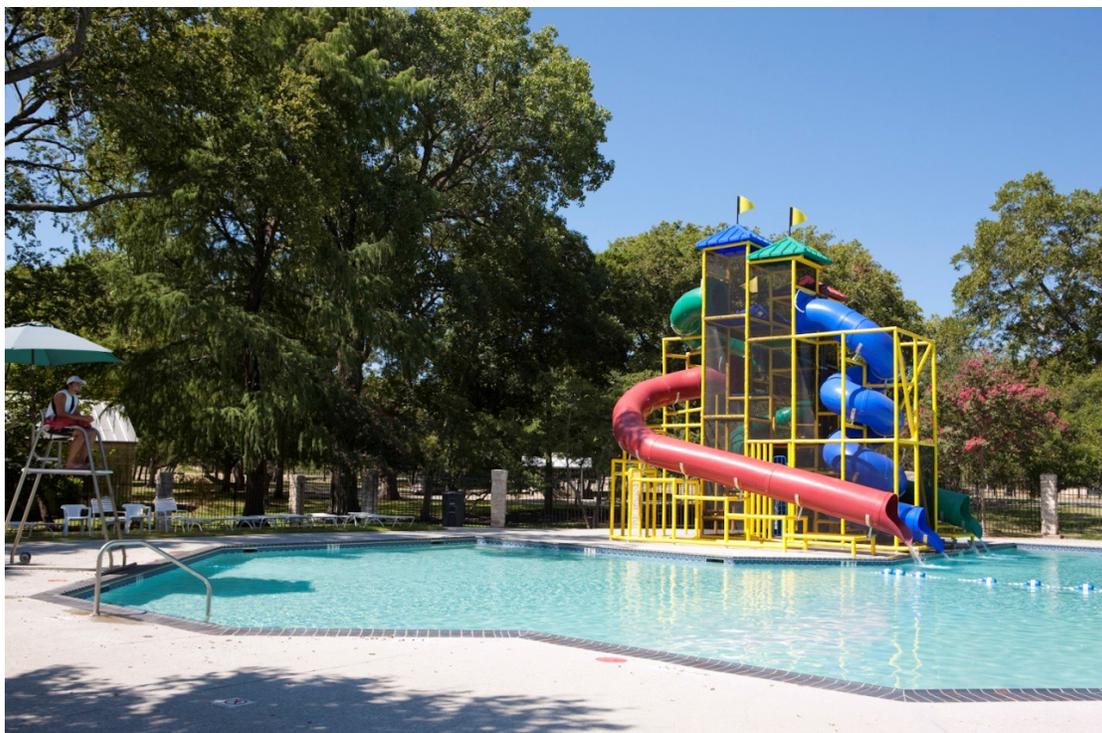
This Official Statement was approved by the Board of Directors of Block House Municipal Utility District, as of the date shown on the first page hereof.

/s/ Terence M. Davis  
President, Board of Directors

/s/ Debra Junk  
Secretary, Board of Directors

## PHOTOGRAPHS

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









**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS**

The information contained in this appendix has been excerpted from the final audited financial statement of Block House Municipal Utility District for the fiscal year ended September 30, 2013. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**

**WILLIAMSON COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2013**

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**

**WILLIAMSON COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2013**

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# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS  
COUNTY OF WILLIAMSON

I, \_\_\_\_\_ of the  
(Name of Duly Authorized District Representative)

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the District's Board of Directors on **January 22, 2014**, its annual audit report for the fiscal year or period ended **September 30, 2013** and that copies of the annual audit report have been filed in the District's office, located at

**100 Congress Avenue, Suite 1300**  
**Austin, Texas 78701**  
(Address of District's Office)

The filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: \_\_\_\_\_

By: \_\_\_\_\_  
(Signature of District Representative)

\_\_\_\_\_  
(Typed Name and Title District Representative)

Sworn to and subscribed to before me this the \_\_\_\_\_ day of \_\_\_\_\_, 2014.

(Seal)

\_\_\_\_\_  
(Signature of Notary)

My Commission Expires On: \_\_\_\_\_, \_\_\_\_\_  
Notary Public in the State of Texas.

# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Block House Municipal Utility District  
Williamson County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Block House Municipal Utility District (the "District"), as of and for the year ended September 30, 2013, 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 District'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  
Block House Municipal  
Utility District

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2013, 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.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 8 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 30 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.

## Supplementary 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* and other supplementary information 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 financial statements. This 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants

January 22, 2014

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Management's discussion and analysis of Block House Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the District's financial statements, which begin on page 9.

**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 Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

The first of the government-wide statements is the Statement of Net Position. This information is found in the Statement of Net Position column on pages 9 through 12. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 14 and 15 reports how the District's net position changed during the current fiscal year. All current year revenues and expenditures are included regardless of when cash is received or paid.

**FUND FINANCIAL STATEMENTS**

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

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**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 on page 13 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 16 explains the differences between the two presentations and assists 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. The notes to the financial statements can be found on pages 17 through 28 in this report.

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$4,969,112 as of September 30, 2013. This compares with assets exceeding liabilities by \$4,499,756, as adjusted, in the prior fiscal year.

A portion of the District's net position reflects its net investment in capital assets (e.g. water, wastewater, drainage and recreational facilities, less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water, wastewater, drainage and recreational services within the District.

The following is a comparative analysis of the Statement of Net Position as of September 30, 2013, and September 30, 2012:

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	Summary of Changes in the Statement of Net Position		
	2013	2012	Change Positive (Negative)
Current and Other Assets	\$ 4,657,669	\$ 4,640,041	\$ 17,628
Capital Assets (Net of Accumulated Depreciation)	17,482,256	18,215,628	(733,372)
Total Assets	\$ 22,139,925	\$ 22,855,669	\$ (715,744)
Long -Term Liabilities	\$ 15,348,712	\$ 16,263,734	\$ 915,022
Other Liabilities	1,822,101	2,092,179	270,078
Total Liabilities	\$ 17,170,813	\$ 18,355,913	\$ 1,185,100
Net Position:			
Net Investment in Capital Assets	\$ 1,479,004	\$ 1,051,372	\$ 427,632
Restricted	425,163	695,594	(270,431)
Unrestricted	3,064,945	2,752,790	312,155
Total Net Position	\$ 4,969,112	\$ 4,499,756	\$ 469,356

\*

The District net position increased by \$469,356, accounting for a 10.4% increase in net position. The following table provides a comparative analysis of the District's operations for the years ending September 30, 2013, and September 30, 2012:

	Summary of Changes in the Statement of Activities		
	2013	2012	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,655,796	\$ 2,706,104	\$ (50,308)
Charges for Services	2,563,850	2,585,654	(21,804)
Other Revenues	50,534	49,716	818
Total Revenues	\$ 5,270,180	\$ 5,341,474	\$ (71,294)
Expenses for Services	4,800,824	4,947,515	146,691
Change in Net Position	\$ 469,356	\$ 393,959	\$ 75,397
Net Position, Beginning of Year	4,499,756	4,105,797	393,959
Net Position, End of Year	\$ 4,969,112	\$ 4,499,756	\$ 469,356

\*

\* As Adjusted, Note 13

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of September 30, 2013, were \$3,812,399, an increase of \$24,904 from the prior year.

The General Fund fund balance increased by \$325,326, primarily due to property tax and service revenues exceeding operating expenditures.

The Debt Service Fund fund balance decreased by \$286,404, primarily due to the structure of the District's long-term debt.

The Capital Projects Fund fund balance decreased by \$14,018.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual excess revenues over expenditures were \$314,246 more than budgeted. See the budget to actual comparison on page 30.

**CAPITAL ASSETS**

The District's capital assets as of September 30, 2013, amount to \$17,482,256 (net of accumulated depreciation). These capital assets include land, as well as the water, wastewater and drainage systems and recreational facilities.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2013	2012	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 306,291	\$ 306,291	\$
Capital Assets, Net of Accumulated Depreciation:			
Common Recreational Areas	1,392,566	1,615,660	(223,094)
Water, Wastewater and Drainage System	12,787,851	13,157,328	(369,477)
Capital Recovery Fees	2,995,548	3,136,349	(140,801)
Total Net Capital Assets	<u>\$ 17,482,256</u>	<u>\$ 18,215,628</u>	<u>\$ (733,372)</u>

Additional information on the District's capital assets can be found in Note 6.

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**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**LONG-TERM DEBT ACTIVITY**

As of September 30, 2013, the District had total bond debt payable of \$16,150,000. The changes in the debt position of the District during the fiscal year ended September 30, 2013, are summarized as follows:

Bond Debt Payable, October 1, 2012	\$ 17,310,000
Less: Bond Principal Paid	<u>1,160,000</u>
Bond Debt Payable, September 30, 2013	<u>\$ 16,150,000</u>

The District's bonds have an underlying rating of "BBB+". The Series 2007 Refunding bonds, Series 2010 Refunding bonds, and Series 2012 Refunding bonds have an insured rating of "AA-" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The ratings above include all rating changes of bond insurers through September 30, 2013.

**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 Block House Municipal Utility District, c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, TX 78701.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUNDS BALANCE SHEET  
SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash, Note 5	\$ 248,905	\$
Investments, Note 5	2,758,470	400,915
Cash with Fiscal Agent		298,411
Receivables:		
Property Taxes	9,266	20,096
Service Accounts (Net of Allowance for Uncollectible Accounts of \$2,500)	423,697	
Accrued Interest	6,743	1,399
Other	10,025	
Due from Other Funds, Note 12	4,900	47
Prepaid Costs	2,239	2,925
Land, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
<b>TOTAL ASSETS</b>	<b>\$ 3,464,245</b>	<b>\$ 723,793</b>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$	\$	\$
250,360	248,905		248,905
	3,409,745		3,409,745
	298,411		298,411
	29,362		29,362
	423,697		423,697
	8,142		8,142
	10,025	32,000	42,025
	4,947	(4,947)	
	5,164	192,218	197,382
		306,291	306,291
		17,175,965	17,175,965
<u>\$ 250,360</u>	<u>\$ 4,438,398</u>	<u>\$ 17,701,527</u>	<u>\$ 22,139,925</u>

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

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUNDS BALANCE SHEET  
SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 217,778	\$ 219
Accrued Interest Payable		
Due to Other Funds, Note 12	47	
Security Deposits	373,693	
Unearned Pool Rental Revenue		
Long Term Liabilities:		
Bonds Payable, Due Within One Year, Note 3		
Bonds Payable, Due After One Year, Note 3		
<b>TOTAL LIABILITIES</b>	\$ 591,518	\$ 219
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 9,266	\$ 20,096
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 2,239	\$ 2,925
Restricted for Authorized Construction		
Restricted for Debt Service		700,553
Assigned to 2014 Budget Deficit, Note 2	31,461	
Unassigned	2,829,761	
<b>TOTAL FUND BALANCES</b>	\$ 2,863,461	\$ 703,478
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 3,464,245	\$ 723,793
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 217,997	\$	\$ 217,997
		298,411	298,411
4,900	4,947	(4,947)	
	373,693		373,693
		32,000	32,000
		900,000	900,000
		15,348,712	15,348,712
<u>\$ 4,900</u>	<u>\$ 596,637</u>	<u>\$ 16,574,176</u>	<u>\$ 17,170,813</u>
<u>\$ -0-</u>	<u>\$ 29,362</u>	<u>\$ (29,362)</u>	<u>\$ -0-</u>
\$	\$ 5,164	\$ (5,164)	\$
245,460	245,460	(245,460)	
	700,553	(700,553)	
	31,461	(31,461)	
	2,829,761	(2,829,761)	
<u>\$ 245,460</u>	<u>\$ 3,812,399</u>	<u>\$ (3,812,399)</u>	<u>\$ - 0 -</u>
<u>\$ 250,360</u>	<u>\$ 4,438,398</u>		
		\$ 1,479,004	\$ 1,479,004
		425,163	425,163
		3,064,945	3,064,945
		<u>\$ 4,969,112</u>	<u>\$ 4,969,112</u>

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

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013**

Total Fund Balances - Governmental Funds	\$	3,812,399
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Prepaid bond insurance costs are amortized over the term of the debt in governmental activities.		192,218
--	--	---------

Land and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		17,482,256
---	--	------------

Deferred tax revenues on delinquent taxes for the 2012 and prior tax levies became part of recognized revenue in the governmental activities of the District.		29,362
---	--	--------

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:

Accrued Interest Payable	\$ (298,411)	
Bonds Payable Within One Year	(900,000)	
Bonds Payable After One Year	<u>(15,348,712)</u>	<u>(16,547,123)</u>

Total Net Position - Governmental Activities	\$	<u>4,969,112</u>
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The accompanying notes to the financial statements are an integral part of this report.

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**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>		
Property Taxes	\$ 1,148,677	\$ 1,500,468
Water Service	720,713	
Wastewater Service	482,131	
Park Fee	258,714	
Basic Services	1,021,631	
Penalty and Interest	72,959	5,709
Tap Connection and Inspection Fees	1,993	
Investment Revenues	14,966	4,295
Miscellaneous Revenues	31,153	
	<hr/>	<hr/>
<b>TOTAL REVENUES</b>	<b>\$ 3,752,937</b>	<b>\$ 1,510,472</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 187,358	\$ 2,590
Contracted Services	1,231,348	13,392
Purchased Water Service, Note 9	607,085	
Purchased Wastewater Service, Note 10	312,880	
Utilities	54,031	
Park/Pool	707,277	
Repairs and Maintenance	128,918	
Depreciation, Note 6		
Other	176,105	
Capital Outlay	22,609	
Debt Service:		
Bond Principal		1,160,000
Bond Interest		620,894
	<hr/>	<hr/>
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 3,427,611</b>	<b>\$ 1,796,876</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 325,326</b>	<b>\$ (286,404)</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION -</b>		
<b>OCTOBER 1, 2012, AS ADJUSTED, NOTE 13</b>	<hr/> <b>2,538,135</b>	<hr/> <b>989,882</b>
<b>FUND BALANCES/NET POSITION -</b>		
<b>SEPTEMBER 30, 2013</b>	<hr/> <b>\$ 2,863,461</b>	<hr/> <b>\$ 703,478</b>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 2,649,145	\$ 6,651	\$ 2,655,796
	720,713		720,713
	482,131		482,131
	258,714		258,714
	1,021,631		1,021,631
	78,668		78,668
	1,993		1,993
120	19,381		19,381
	31,153		31,153
\$ 120	\$ 5,263,529	\$ 6,651	\$ 5,270,180
\$	\$ 189,948	\$	\$ 189,948
	1,244,740		1,244,740
	607,085		607,085
	312,880		312,880
	54,031		54,031
	707,277		707,277
14,138	143,056		143,056
		755,981	755,981
	176,105		176,105
	22,609	(22,609)	
	1,160,000	(1,160,000)	
	620,894	(11,173)	609,721
\$ 14,138	\$ 5,238,625	\$ (437,801)	\$ 4,800,824
\$ (14,018)	\$ 24,904	\$ (24,904)	\$
		469,356	469,356
259,478	3,787,495	712,261	4,499,756
\$ 245,460	\$ 3,812,399	\$ 1,156,713	\$ 4,969,112

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

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Net Change in Fund Balances - Governmental Funds	\$	24,904
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		6,651
<p>Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.</p>		(755,981)
<p>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.</p>		22,609
<p>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.</p>		1,160,000
<p>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.</p>		<u>11,173</u>
Change in Net Position - Governmental Activities	\$	<u><u>469,356</u></u>

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

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**NOTE 1. CREATION OF DISTRICT**

Block House Municipal Utility District, located in Williamson County, Texas (the "District") was created effective January 12, 1978 by an Order of the Texas Water Commission, presently known as the Texas Commission on Environmental Quality (the "Commission"). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on October 9, 1979, and the first bonds were issued on November 13, 1986.

**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 GASB has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent municipality. The District does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the District's financial statements.

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.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**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.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Financial Statements

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

Governmental Funds

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

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

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting debt service 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 of 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 taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets

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

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

	Years
Common and Recreational Areas	5-50
Water System	10-45
Wastewater System	10-45
Drainage System	10-40
All Other Equipment	3-20

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for 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.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

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 funds types increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

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

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

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

*Assigned*: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. As of September 30, 2013, the District has assigned \$31,461 of the General Fund fund balance to use for a budgeted General Fund deficit during the year ended September 30, 2014.

*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.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

New Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for fiscal years beginning after December 15, 2011, provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net assets that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net assets applicable to a future reporting period. GASB Statement No. 63 has been implemented in these financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for fiscal years beginning after December 15, 2012, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 has been early implemented in these financial statements.

**NOTE 3. LONG – TERM DEBT**

	<u>Refunding Series 2007</u>	<u>Refunding Series 2010</u>	<u>Refunding Series 2012</u>
Amounts Outstanding – September 30, 2013	\$ 5,805,000	\$ 8,000,000	\$ 2,345,000
Interest Rates	4.00% - 4.20%	2.00% - 4.00%	2.00% - 3.00%
Maturity Dates – Serially Beginning/Ending	April 1, 2014/2027	April 1, 2014/2026	April 1, 2014/2020
Interest Payment Dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable Dates	April 1, 2014*	April 1, 2016*	April 1, 2018*

\* Bonds maturing on or after this date are subject to being called at par value plus accrued interest date to the date fixed for redemption.

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2013:

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**NOTE 3. LONG – TERM DEBT (Continued)**

	October 1, 2012	Additions	Retirements	September 30, 2013
Bonds Payable	\$ 17,310,000		\$ 1,160,000	\$ 16,150,000
Unamortized Discounts	(208,736)		(15,790)	(192,946)
Unamortized Premiums	322,470		30,812	291,658
Bonds Payable, net	<u>\$ 17,423,734</u>	<u>\$ -0-</u>	<u>\$ 1,175,022</u>	<u>\$ 16,248,712</u>
			Amount Due Within One Year	\$ 900,000
			Amount Due After One Year	<u>15,348,712</u>
			Total Long-Term Liabilities	<u>\$ 16,248,712</u>

As of September 30, 2013, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2014	900,000	596,822	1,496,822
2015	910,000	578,322	1,488,322
2016	955,000	553,872	1,508,872
2017	965,000	526,572	1,491,572
2018	1,045,000	492,922	1,537,922
2019-2023	5,745,000	1,853,960	7,598,960
2024-2027	5,630,000	600,644	6,230,644
	<u>\$ 16,150,000</u>	<u>\$ 5,203,114</u>	<u>\$ 21,353,114</u>

As of September 30, 2013, the District has authorized but unissued tax bonds in the amount of \$8,520,000 and available refunding bonds authorization of \$24,743,422. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

During the year ended September 30, 2013, the District levied an ad valorem debt service tax rate of \$0.4905 per \$100 of assessed valuation, which resulted in a tax levy of \$1,504,465 on the adjusted taxable valuation of \$306,687,431 for the 2012 tax year. The bond order and bond resolution 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.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District. 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.

**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 \$3,248,905 and the bank balance was \$3,450,705. Of the bank balance, \$3,251,416 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third-party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2013, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 248,905	\$ 2,640,000	\$ 2,888,905
DEBT SERVICE FUND		360,000	360,000
TOTAL DEPOSITS	\$ 248,905	\$ 3,000,000	\$ 3,248,905

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;

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**NOTE 5. DEPOSITS AND INVESTMENTS**

Investments (Continued)

and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

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

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool. Federated Investors, Inc. manages the daily operations of TexPool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of pool shares. As of September 30, 2013, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 118,470	\$ 118,470	\$	\$	\$
Certificates of Deposit	2,640,000	2,640,000			
<u>DEBT SERVICE FUND</u>					
TexPool	40,915	40,915			
Certificates of Deposit	360,000	360,000			
<u>CAPITAL PROJECTS FUND</u>					
TexPool	112,923	112,923			
Money Market Mutual Funds	137,437	137,437			
<b>TOTAL INVESTMENTS</b>	<u>\$ 3,409,745</u>	<u>\$ 3,409,745</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**NOTE 5. DEPOSITS AND INVESTMENTS**

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2013, the District's investment in TexPool was rated AAAM by Standard and Poor's. The District's investments in the Money Market Mutual Funds were rated AAAM and A-1+.

Interest rate risk is the risk the changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and Money Market Mutual Funds to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District.

Restrictions

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

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended September 30, 2013:

	October 1, 2012	Increases	Decreases	September 30, 2013
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 306,291	\$ 22,609	\$ 22,609	\$ 306,291
Construction in Progress		22,609	22,609	
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 306,291</u>	<u>\$ 22,609</u>	<u>\$ 22,609</u>	<u>\$ 306,291</u>
<b>Capital Assets Subject to Depreciation</b>				
Common Recreational Areas	\$ 4,957,586	\$ 22,609	\$ -	\$ 4,980,195
Water, Wastewater and Drainage System	18,047,615			18,047,615
Capital Recovery Fees	4,613,743			4,613,743
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 27,618,944</u>	<u>\$ 22,609</u>	<u>\$ - 0 -</u>	<u>\$ 27,641,553</u>
<b>Less Accumulated Depreciation</b>				
Common Recreational Areas	\$ 3,341,926	\$ 245,703	\$ -	\$ 3,587,629
Water, Wastewater and Drainage System	4,890,287	369,477		5,259,764
Capital Recovery Fees	1,477,394	140,801		1,618,195
<b>Total Accumulated Depreciation</b>	<u>\$ 9,709,607</u>	<u>\$ 755,981</u>	<u>\$ - 0 -</u>	<u>\$ 10,465,588</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 17,909,337</u>	<u>\$ (733,372)</u>	<u>\$ - 0 -</u>	<u>\$ 17,175,965</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 18,215,628</u>	<u>\$ (710,763)</u>	<u>\$ 22,609</u>	<u>\$ 17,482,256</u>

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 7. MAINTENANCE TAX**

On April 4, 1981, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 of assessed valuation of taxable property within the District. During the year ended September 30, 2013, the District levied an ad valorem maintenance tax rate of \$0.2213 per \$100 of assessed valuation, which resulted in a tax levy of \$678,773 on the adjusted taxable valuation of \$306,687,431 for the 2012 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

**NOTE 8. CONTRACT TAX**

On May 12, 2007, the voters within the District approved a fire protection plan and contract with the City of Cedar Park, Texas for fire protection services including the funding of a service fee payable to Cedar Park through (a) tax revenues generated by a contract tax, (b) a user fee, (c) any other funds lawfully available to the District; or (d) a combination of these. During the year ended September 30, 2013, the District levied a contract tax rate of \$0.1542, which resulted in a tax levy of \$472,963 on the adjusted taxable valuation of \$306,687,431 for the 2012 tax year.

**NOTE 9. WATER SUPPLY AGREEMENT**

Effective March 10, 1995, the District and the City of Cedar Park, Texas (the "City") entered into a water supply contract (the "Water Agreement"). Under the terms of the Water Agreement, the City agreed to sell and the District agreed to purchase capacity in the City's water treatment and distribution system, and the City agreed to provide the District with a wholesale water supply. The Water Agreement establishes a wholesale rate for water provided by the City to the District and provides a mechanism for calculating increases in the rate based upon a cost of service study. The Water Agreement was amended on September 25, 2000 to set the rate at \$2.39 per 1,000 gallons purchased without need for a cost of service study. The amendment specified that a cost of service study be required for any future rate adjustments. The current rate being charged by the City is \$3.03 per 1,000 gallons purchased. During the current fiscal year, the District recorded an expenditure of \$607,085 for purchased water services.

**NOTE 10. WHOLESALE WASTEWATER SERVICE AGREEMENT**

Effective September 25, 2002, the District and the City entered into a wholesale wastewater service contract (the "Wastewater Agreement"). Under the terms of the Wastewater Agreement, the District agreed to purchase capacity in the City's wastewater collection and treatment system and the City agreed to provide the District with wholesale wastewater treatment services for its existing and future development. The Wastewater Agreement established a wholesale rate for wastewater service provided by the City to the District and provides that the City can change the rate periodically by action of the City Council after giving at least 30 day notice to the District to review and comment on the proposed change. The Wastewater Agreement was amended on

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 10. WHOLESALE WASTEWATER SERVICE AGREEMENT (Continued)**

April 10, 2008 to change how wastewater flow was to be measured. During the current fiscal year, the District recorded an expenditure of \$312,880 for purchased wastewater services.

**NOTE 11. 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. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, errors and omissions and law enforcement liability coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and evaluated and denied or allowed by TML. During the current fiscal year ended September 30, 2013, the District contributed \$7,024 to the fund for this insurance coverage. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 12. INTERFUND RECEIVABLES/PAYABLES**

As of September 30, 2013, the District has the following interfund payables and receivables: the General Fund owes the Debt Service Fund \$47 for debt service tax collections. The Capital Projects Fund owes the General Fund \$4,900 for construction projects.

**NOTE 13. PRIOR PERIOD ADJUSTMENT**

GASB Statement No. 65 was implemented in the current fiscal year. Bond issuance costs previously reported as assets to be amortized over the life of the related debt are now recognized as an expense in the period in which the bonds are sold. The effect of this change in accounting principle is as follows:

Net Position - October 1, 2012	\$ 4,960,740
Effect of Adjustment	<u>(460,984)</u>
Net Position - October 1, 2012, As Adjusted	<u>\$ 4,499,756</u>

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2013**

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Property Taxes	\$ 1,140,125	\$ 1,148,677	\$ 8,552
Water Service	700,000	720,713	20,713
Wastewater Service	500,000	482,131	(17,869)
Park Fee	255,000	258,714	3,714
Basic Services	978,100	1,021,631	43,531
Penalty and Interest	78,500	72,959	(5,541)
Tap Connection and Inspection Fees	7,250	1,993	(5,257)
Investment Revenues	20,000	14,966	(5,034)
Miscellaneous Revenues	30,000	31,153	1,153
<b>TOTAL REVENUES</b>	<u>\$ 3,708,975</u>	<u>\$ 3,752,937</u>	<u>\$ 43,962</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 257,000	\$ 187,358	\$ 69,642
Contracted Services	1,213,295	1,231,348	(18,053)
Purchased Water Service	650,000	607,085	42,915
Purchased Wastewater Service	365,000	312,880	52,120
Utilities	59,600	54,031	5,569
Park/Pool	744,500	707,277	37,223
Repairs and Maintenance	140,000	128,918	11,082
Other	218,500	176,105	42,395
Capital Outlay	50,000	22,609	27,391
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,697,895</u>	<u>\$ 3,427,611</u>	<u>\$ 270,284</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 11,080	\$ 325,326	\$ 314,246
<b>FUND BALANCE - OCTOBER 1, 2012</b>	<u>2,538,135</u>	<u>2,538,135</u>	<u></u>
<b>FUND BALANCE - SEPTEMBER 30, 2013</b>	<u>\$ 2,549,215</u>	<u>\$ 2,863,461</u>	<u>\$ 314,246</u>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
SUPPLEMENTARY INFORMATION – REQUIRED BY THE  
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE  
SEPTEMBER 30, 2013**

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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

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

**2. RETAIL SERVICE PROVIDERS**

**a. RETAIL RATES FOR A 3/4" METER (OR EQUIVALENT):**

Based on the rate order effective August 28, 2013.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 49.66*	N/A	N	\$ 3.88 \$ 4.12 \$ 4.55 \$ 5.00	0,001 to 7,000 7,001 to 14,000 14,001 to 20,000 20,001 and up
WASTEWATER:		N/A	N	\$ 4.00	0,001 and up
SURCHARGE:	\$0.05% of water and wastewater bill				
Regulatory Assessment Fee					

District employs winter averaging for wastewater usage?   X    
Yes              
No

Total monthly charges per 10,000 gallons usage: Water: \$89.18 Wastewater: \$40.00 Surcharge: \$0.40

\* Includes base fee of \$49.66. This amount is not used to calculate regulatory assessment fee.

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	2,155	2,092	x 1.0	2,092
1"	1	1	x 2.5	3
1½"	1	1	x 5.0	5
2"	1	1	x 8.0	8
3"	1	1	x 15.0	15
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>2,159</u>	<u>2,096</u>		<u>2,123</u>
Total Wastewater Connections	<u>2,159</u>	<u>2,092</u>	x 1.0	<u>2,092</u>

**3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited):**

Gallons billed to customers:	196,577,000	Water Accountability Ratio: 83.4%
		(Gallons billed/Gallons purchased)
Gallons purchased:	235,618,000	From: <u>City of Cedar Park, Texas</u>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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

Does the District have Debt Service standby fees?                      Yes \_\_\_\_\_ No X

Does the District have Operation and Maintenance standby fees?    Yes \_\_\_\_\_ No X

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes    X                      No    \_\_\_\_\_

County or Counties in which District is located:

Williamson County, Texas

Is the District located within a city?

Entirely \_\_\_\_\_    Partly \_\_\_\_\_    Not at all    X

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

Entirely X                      Partly \_\_\_\_\_    Not at all    \_\_\_\_\_

ETJ's in which District is located:

City of Cedar Park, Texas

Is the general membership of the Board appointed by an office outside the District?

Yes    \_\_\_\_\_                      No    X

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

PROFESSIONAL FEES:	
Auditing	\$ 15,000
Engineering	57,660
Legal	114,184
Financial Advisor	<u>514</u>
TOTAL PROFESSIONAL FEES	<u>\$ 187,358</u>
 PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 607,085
Purchased Wastewater Service	<u>312,880</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 919,965</u>
 CONTRACTED SERVICES:	
Appraisal District	\$ 9,412
Bookkeeping	32,623
Operations and Billing	<u>227,314</u>
TOTAL CONTRACTED SERVICES	<u>\$ 269,349</u>
 UTILITIES:	
Electricity	\$ 53,938
Telephone	<u>93</u>
TOTAL UTILITIES	<u>\$ 54,031</u>
 REPAIRS AND MAINTENANCE	<u>\$ 128,918</u>
 ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 31,200
Election Costs	6,910
Insurance	7,324
Legal Notices	764
Office Supplies and Postage	48,441
Payroll Taxes	2,387
Travel and Meetings	9,222
Other	<u>58,639</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 164,887</u>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

CAPITAL OUTLAY:	
Capitalized Assets	\$ 22,609
Expenditures Not Capitalized	<u>                    </u>
TOTAL CAPITAL OUTLAY	<u>\$ 22,609</u>
SOLID WASTE DISPOSAL	<u>\$ 394,779</u>
SECURITY	<u>\$ 95,585</u>
PARKS AND RECREATION	<u>\$ 707,277</u>
FIRE FIGHTING	<u>\$ 471,635</u>
OTHER EXPENDITURES:	
Permit Fees	\$ 4,830
Regulatory Assessment	<u>6,388</u>
TOTAL OTHER EXPENDITURES	<u>\$ 11,218</u>
TOTAL EXPENDITURES	<u>\$ 3,427,611</u>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
INVESTMENTS  
SEPTEMBER 30, 2013**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<b><u>GENERAL FUND</u></b>					
TexPool	7922900001	Varies	Daily	\$ 118,470	\$
Certificate of Deposit	1002215895	0.40%	07/26/14	240,000	174
Certificate of Deposit	530257	0.45%	02/08/14	240,000	692
Certificate of Deposit	9009010287	0.40%	07/03/14	120,000	118
Certificate of Deposit	179937	0.55%	04/25/14	240,000	571
Certificate of Deposit	1008396390	0.35%	02/11/14	240,000	532
Certificate of Deposit	220001218	0.50%	02/11/14	240,000	769
Certificate of Deposit	20055	0.85%	12/17/13	120,000	802
Certificate of Deposit	3300041043	0.45%	05/09/14	120,000	213
Certificate of Deposit	303124643	0.35%	03/18/14	240,000	451
Certificate of Deposit	2003111	0.32%	11/21/13	120,000	71
Certificate of Deposit	635201	0.73%	01/16/14	120,000	617
Certificate of Deposit	5000526	0.50%	09/21/14	120,000	15
Certificate of Deposit	4129235	0.95%	03/19/14	240,000	1,218
Certificate of Deposit	7435	0.50%	05/01/14	240,000	500
<b>TOTAL GENERAL FUND</b>				<b><u>\$ 2,758,470</u></b>	<b><u>\$ 6,743</u></b>
<b><u>DEBT SERVICE FUND</u></b>					
TexPool	7922900002	Varies	Daily	\$ 105	\$
TexPool	7922900003	Varies	Daily	40,810	
Certificate of Deposit	180034	0.36%	03/20/14	120,000	187
Certificate of Deposit	4129110	0.95%	03/20/14	240,000	1,212
<b>TOTAL DEBT SERVICE FUND</b>				<b><u>\$ 400,915</u></b>	<b><u>\$ 1,399</u></b>
<b><u>CAPITAL PROJECTS FUND</u></b>					
TexPool	7922900004	Varies	Daily	\$ 112,923	\$
Money Market Mutual Fund	15104300	Varies	Daily	119,062	
Money Market Mutual Fund	752786	Varies	Daily	18,375	
<b>TOTAL CAPITAL PROJECTS FUND</b>				<b><u>\$ 250,360</u></b>	<b><u>\$ - 0 -</u></b>
<b>TOTAL - ALL FUNDS</b>				<b><u>\$ 3,409,745</u></b>	<b><u>\$ 8,142</u></b>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Maintenance Tax</u>		<u>Contract Tax</u>		<u>Debt Service Tax</u>	
TAXES RECEIVABLE -						
OCTOBER 1, 2012	\$	4,408	\$	1,959	\$	16,344
Adjustments to Beginning Balance		<u>(102)</u>		<u>(58)</u>		<u>(203)</u>
	\$	4,306	\$	1,901	\$	16,141
Original 2012 Tax Levy	\$	678,786	\$	472,973	\$	1,504,495
Adjustment to 2012 Tax Levy		<u>(13)</u>		<u>(10)</u>		<u>(30)</u>
		<u>678,773</u>		<u>472,963</u>		<u>1,504,465</u>
TOTAL TO BE ACCOUNTED FOR		\$ 683,079		\$ 474,864		\$ 1,520,606
TAX COLLECTIONS:						
Prior Years	\$	1,112	\$	653	\$	2,347
Current Year		<u>675,930</u>		<u>470,982</u>		<u>1,498,163</u>
		<u>677,042</u>		<u>471,635</u>		<u>1,500,510</u>
TAXES RECEIVABLE -						
SEPTEMBER 30, 2013		<u>\$ 6,037</u>		<u>\$ 3,229</u>		<u>\$ 20,096</u>
TAXES RECEIVABLE BY YEAR:						
2012		\$ 2,843		\$ 1,981		\$ 6,302
2011		903		513		1,789
2010		718		527		1,976
2009		300		208		807
2008		394				653
2007		334				599
2006		311				592
2005		234				565
2004 and prior		<u>          </u>		<u>          </u>		<u>6,813</u>
TOTAL		<u>\$ 6,037</u>		<u>\$ 3,229</u>		<u>\$ 20,096</u>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>PROPERTY VALUATIONS:</b>				
Land	\$ 66,007,174	\$ 65,888,272	\$ 71,265,975	\$ 71,530,278
Improvements	252,298,360	258,127,233	255,837,027	255,072,557
Personal Property	2,490,425	2,403,081	2,066,444	1,895,319
Exemptions	<u>(14,108,528)</u>	<u>(13,953,666)</u>	<u>(13,173,884)</u>	<u>(12,847,004)</u>
<b>TOTAL PROPERTY VALUATIONS</b>	<u>\$ 306,687,431</u>	<u>\$ 312,464,920</u>	<u>\$ 315,995,562</u>	<u>\$ 315,651,150</u>
<b>TAX RATES PER \$100 VALUATION:</b>				
Debt Service	\$ 0.4905	\$ 0.4835	\$ 0.5190	\$ 0.5193
Maintenance	0.2213	0.2439	0.1886	0.1928
Contract	<u>0.1542</u>	<u>0.1386</u>	<u>0.1384</u>	<u>0.1339</u>
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<u>\$ 0.8660</u>	<u>\$ 0.8660</u>	<u>\$ 0.8460</u>	<u>\$ 0.8460</u>
<b>ADJUSTED TAX LEVY*</b>	<u>\$ 2,656,201</u>	<u>\$ 2,706,236</u>	<u>\$ 2,673,495</u>	<u>\$ 2,671,915</u>
<b>PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED</b>	<u>99.58 %</u>	<u>99.88 %</u>	<u>99.88 %</u>	<u>99.95 %</u>

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

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation was approved by voters on April 4, 1981.

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
SEPTEMBER 30, 2013**

REFUNDING SERIES - 2007

Due During Fiscal Years Ending September 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2014	25,000	239,072	264,072
2015	25,000	238,072	263,072
2016	25,000	237,072	262,072
2017	25,000	236,072	261,072
2018	325,000	235,072	560,072
2019	325,000	222,072	547,072
2020	350,000	209,072	559,072
2021	370,000	195,072	565,072
2022	390,000	180,272	570,272
2023	390,000	164,672	554,672
2024	410,000	148,682	558,682
2025	435,000	131,872	566,872
2026	1,175,000	113,820	1,288,820
2027	1,535,000	64,470	1,599,470
	<u>\$ 5,805,000</u>	<u>\$ 2,615,364</u>	<u>\$ 8,420,364</u>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
SEPTEMBER 30, 2013**

REFUNDING SERIES - 2010			
Due During Fiscal Years Ending September 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2014	565,000	296,850	861,850
2015	575,000	285,550	860,550
2016	610,000	268,300	878,300
2017	610,000	250,000	860,000
2018	375,000	225,600	600,600
2019	385,000	210,600	595,600
2020	410,000	195,200	605,200
2021	760,000	178,800	938,800
2022	790,000	148,400	938,400
2023	845,000	116,800	961,800
2024	880,000	83,000	963,000
2025	920,000	47,800	967,800
2026	275,000	11,000	286,000
2027			
	\$ 8,000,000	\$ 2,317,900	\$ 10,317,900

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
SEPTEMBER 30, 2013**

REFUNDING SERIES - 2012

Due During Fiscal Years Ending September 30	Principal Due April 1	Interest Due October 1/ April 1	Total
2014	310,000	60,900	370,900
2015	310,000	54,700	364,700
2016	320,000	48,500	368,500
2017	330,000	40,500	370,500
2018	345,000	32,250	377,250
2019	360,000	21,900	381,900
2020	370,000	11,100	381,100
2021			
2022			
2023			
2024			
2025			
2026			
2027			
	<u>\$ 2,345,000</u>	<u>\$ 269,850</u>	<u>\$ 2,614,850</u>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS  
SEPTEMBER 30, 2013**

**ANNUAL REQUIREMENTS  
FOR ALL SERIES**

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2014	900,000	596,822	1,496,822
2015	910,000	578,322	1,488,322
2016	955,000	553,872	1,508,872
2017	965,000	526,572	1,491,572
2018	1,045,000	492,922	1,537,922
2019	1,070,000	454,572	1,524,572
2020	1,130,000	415,372	1,545,372
2021	1,130,000	373,872	1,503,872
2022	1,180,000	328,672	1,508,672
2023	1,235,000	281,472	1,516,472
2024	1,290,000	231,682	1,521,682
2025	1,355,000	179,672	1,534,672
2026	1,450,000	124,820	1,574,820
2027	1,535,000	64,470	1,599,470
	<u>\$ 16,150,000</u>	<u>\$ 5,203,114</u>	<u>\$ 21,353,114</u>

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
CHANGE IN LONG-TERM BOND DEBT  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2012
Block House Municipal Utility District Unlimited Tax Refunding Bonds - Series 2007	\$ 5,930,000	\$ 5,830,000
Block House Municipal Utility District Unlimited Tax Refunding Bonds - Series 2010	9,135,000	8,840,000
Block House Municipal Utility District Unlimited Tax Refunding Bonds - Series 2012	<u>2,640,000</u>	<u>2,640,000</u>
<b>TOTAL</b>	<u>\$ 17,705,000</u>	<u>\$ 17,310,000</u>

Bond Authority:	<u>Tax Bonds *</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 34,325,000	\$ 25,500,000
Amount Issued	<u>25,805,000</u>	<u>756,578</u>
Remaining to be Issued	<u>\$ 8,520,000</u>	<u>\$ 24,743,422</u>

Debt Service Fund cash, investments and cash with paying agent balances as of September 30, 2013: \$ 699,326

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,525,222

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

\* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2013</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 25,000	\$ 240,073	\$ 5,805,000	Bank Of Texas Austin, TX
	840,000	313,650	8,000,000	Bank Of Texas Austin, TX
	<u>295,000</u>	<u>67,171</u>	<u>2,345,000</u>	Bank Of Texas Austin, TX
<u>\$ - 0 -</u>	<u>\$ 1,160,000</u>	<u>\$ 620,894</u>	<u>\$ 16,150,000</u>	

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND - FIVE YEARS**

	Amounts		
	2013	2012	2011
<b>REVENUES</b>			
Property Taxes	\$ 1,148,677	\$ 1,193,485	\$ 1,033,970
Service Revenues	2,556,148	2,569,424	2,679,984
Tap Connection and Inspection Fees	1,993	9,749	1,575
Investment Revenues	14,966	15,889	17,913
Miscellaneous Revenues	31,153	27,405	10,615
<b>TOTAL REVENUES</b>	<b>\$ 3,752,937</b>	<b>\$ 3,815,952</b>	<b>\$ 3,744,057</b>
<b>EXPENDITURES</b>			
Professional Fees and Contracted Services	\$ 1,418,706	\$ 1,352,630	\$ 1,332,337
Purchased Water and Wastewater Service	919,965	1,014,070	1,168,953
Utilities	54,031	56,986	58,026
Park/Pool	707,277	574,649	653,341
Repairs and Maintenance	128,918	78,907	60,828
Other	176,105	156,180	163,579
Capital Outlay	22,609	262,205	126,442
<b>TOTAL EXPENDITURES</b>	<b>\$ 3,427,611</b>	<b>\$ 3,495,627</b>	<b>\$ 3,563,506</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 325,326</b>	<b>\$ 320,325</b>	<b>\$ 180,551</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$ - 0 -	\$ -0-	\$ 153,646
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 325,326</b>	<b>\$ 320,325</b>	<b>\$ 334,197</b>
<b>BEGINNING FUND BALANCE</b>	<b>2,538,135</b>	<b>2,217,810</b>	<b>1,883,613</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 2,863,461</b>	<b>\$ 2,538,135</b>	<b>\$ 2,217,810</b>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2010	2009	2013	2012	2011	2010	2009
\$ 1,040,966	\$ 1,013,424	30.6 %	31.3 %	27.6 %	32.3 %	31.2 %
2,075,414	2,142,715	68.1	67.3	71.6	64.2	66.1
11,025	5,398	0.1	0.3		0.3	0.2
30,046	30,770	0.4	0.4	0.5	0.9	0.9
74,280	50,277	0.8	0.7	0.3	2.3	1.6
<u>\$ 3,231,731</u>	<u>\$ 3,242,584</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 1,299,340	\$ 1,134,382	37.8 %	35.4 %	35.6 %	40.2 %	35.0 %
1,157,029	992,778	24.5	26.6	31.2	35.8	30.6
55,961	109,248	1.4	1.5	1.5	1.7	3.4
513,326	447,186	18.8	15.1	17.5	15.9	13.8
89,116	140,177	3.4	2.1	1.6	2.8	4.3
76,423	270,239	4.7	4.1	4.4	2.4	8.3
87,634	6,591	0.6	6.9	3.4	2.7	0.2
<u>\$ 3,278,829</u>	<u>\$ 3,100,601</u>	<u>91.2 %</u>	<u>91.7 %</u>	<u>95.2 %</u>	<u>101.5 %</u>	<u>95.6 %</u>
\$ (47,098)	\$ 141,983	8.8 %	8.3 %	4.8 %	(1.5) %	4.4 %
\$ - 0 -	\$ - 0 -					
\$ (47,098)	\$ 141,983					
<u>1,930,711</u>	<u>1,788,728</u>					
<u>\$ 1,883,613</u>	<u>\$ 1,930,711</u>					

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2013	2012	2011
<b>REVENUES</b>			
Property Taxes	\$ 1,506,177	\$ 1,515,510	\$ 1,649,603
Investment Revenues	<u>4,295</u>	<u>6,276</u>	<u>10,416</u>
<b>TOTAL REVENUES</b>	<u>\$ 1,510,472</u>	<u>\$ 1,521,786</u>	<u>\$ 1,660,019</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 14,782	\$ 15,060	\$ 17,781
Debt Service Principal	1,160,000	1,080,000	990,000
Debt Service Interest and Fees	622,094	643,064	765,846
Bond Issuance Costs	<u>                    </u>	<u>114,079</u>	<u>368,077</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,796,876</u>	<u>\$ 1,852,203</u>	<u>\$ 2,141,704</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (286,404)</u>	<u>\$ (330,417)</u>	<u>\$ (481,685)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-Term Debt Issued	\$	\$ 2,640,000	\$ 9,135,000
Transfer to Refunding Escrow Agent		(2,625,609)	(8,925,506)
Bond Discount		(23,621)	(55,860)
Bond Premium	<u>                    </u>	<u>125,199</u>	<u>235,359</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ - 0 -</u>	<u>\$ 115,969</u>	<u>\$ 388,993</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (286,404)	\$ (214,448)	\$ (92,692)
<b>BEGINNING FUND BALANCE</b>	<u>989,882</u>	<u>1,204,330</u>	<u>1,297,022</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 703,478</u>	<u>\$ 989,882</u>	<u>\$ 1,204,330</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>2,096</u>	<u>2,096</u>	<u>2,096</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>2,092</u>	<u>2,092</u>	<u>2,092</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2010	2009	2013	2012	2011	2010	2009
\$ 1,655,347	\$ 1,680,361	99.7 %	99.6 %	99.4 %	99.0 %	99.0 %
<u>16,544</u>	<u>16,890</u>	<u>0.3</u>	<u>0.4</u>	<u>0.6</u>	<u>1.0</u>	<u>1.0</u>
\$ 1,671,891	\$ 1,697,251	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 14,810	\$ 16,010	1.0 %	1.0 %	1.1 %	0.9 %	0.9 %
945,000	471,001	76.8	71.0	59.6	56.5	27.8
842,943	1,289,689	41.2	42.3	46.1	50.4	76.0
			<u>7.5</u>	<u>22.2</u>		
\$ 1,802,753	\$ 1,776,700	119.0 %	121.8 %	129.0 %	107.8 %	104.7 %
\$ (130,862)	\$ (79,449)	<u>(19.0) %</u>	<u>(21.8) %</u>	<u>(29.0) %</u>	<u>(7.8) %</u>	<u>(4.7) %</u>
\$	\$					
\$ - 0 -	\$ - 0 -					
\$ (130,862)	\$ (79,449)					
<u>1,427,884</u>	<u>1,507,333</u>					
\$ 1,297,022	\$ 1,427,884					
<u>2,159</u>	<u>2,096</u>					
<u>2,092</u>	<u>2,092</u>					

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2013**

District Mailing Address - Block House Municipal Utility District  
c/o Armbrust & Brown, PLLC  
100 Congress Avenue, Suite 1300  
Austin, TX 78701

District Telephone Number - (512) 259-0959

<b>Board Members</b>	<b>Term of Office (Elected or Appointed)</b>	<b>Fees of Office for the year ended September 30, 2013</b>	<b>Expense Reimbursements for the year ended September 30, 2013</b>	<b>Title</b>
Terence M. Davis	05/10 11/14 (Elected)	\$ 3,700	\$ 1,397	President
Cecilia A. Roberts	11/12 11/16 (Elected)	\$ 6,700	\$ 249	Vice President
Debra Junk	05/10 11/14 (Elected)	\$ 7,100	\$ 1,507	Secretary
Steve A. Bennett	11/12 11/16 (Elected)	\$ 6,500	\$ 131	Assistant Secretary
Ursula Logan	05/12 11/14 (Appointed)	\$ 7,200	\$ 428	Assistant Secretary

Note: 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 developer or with any of the District's consultants.

Submission Date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
February 27, 2013.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 23, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2013**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2013</u>	<u>Title</u>
Armbrust & Brown, PLLC 100 Congress Avenue, Suite 1300 Austin, TX 78701	06/91	\$ 131,991	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	08/11	\$ 15,000	Auditor
Municipal Accounts & Consulting, L.P. 8834 N. Capital of Texas Highway, Suite 150 Austin, TX 78759	09/08	\$ 32,623	Bookkeeper
Williamson Central Appraisal District 625 F.M. 1460 Georgetown, TX 78626	Legislative Action	\$ 20,973	Central Appraisal District
Gray & Associates, Inc. 8217 Shoal Creek, Suite 200 Austin, TX 78759	11/92	\$ 50,861	Engineer
Southwest Securities, Inc. 701 Brazos, Suite 400 Austin, TX 78701	05/94	\$ 1,330	Financial Advisor
Crossroads Utility Services 2601 Forest Creek Drive Round Rock, TX 78665	06/09	\$ 338,464	General Manager
Williamson County Tax Assessor/Collector 904 S. Main Street Georgetown, TX 78626	07/99	\$ 631	Tax Assessor/ Collector

See accompanying independent auditor's report.

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**

**OTHER SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2013**

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**PRINCIPAL TAXPAYERS**  
**SEPTEMBER 30, 2013**  
**(UNAUDITED)**

Taxpayers	Tax Roll Year		
	2013	2012	2011
Stoneridge Capital Partners Ltd	\$ 3,587,968	\$ 3,587,968	\$ 3,514,745
Pedernales Electric Cooperative Inc.	1,659,110	1,530,341	1,516,729
Paver Family Enterprises L.P.	1,573,931	1,557,590	1,463,455
McGetrick, Jacqueline	655,131	629,009	642,391
Secretary of Housing & Urban Development			413,050
Staalenburg, Ruben	409,892		
Halstead, Leon & Sharen	355,732	344,552	354,534
McMullen, Stuart M.		312,380	315,033
Roe, Robert R. & Laura A.	300,625		302,467
Aguirre, Armando Mauricio & Deniss Aguirre-Jordan		289,250	
GCC Properties I L.P.			300,415
McPherson, Scott Richard			299,288
Arpad, Sheldon & Diana	430,371	420,534	
Phillips, Tom & Andrea C.	408,700	381,008	
Cohen, Albert & Debra	<u>299,627</u>	<u>285,921</u>	
<b>Total Principal Taxpayers</b>	<b><u>\$ 9,681,087</u></b>	<b><u>\$ 9,338,553</u></b>	<b><u>\$ 9,122,107</u></b>
<b>Percent of Assessed Valuation</b>	<b><u>3.00%</u></b>	<b><u>2.99%</u></b>	<b><u>2.88%</u></b>

Source: Williamson Central Appraisal  
District Website

See accompanying independent auditor's report

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT**  
**ASSESSED VALUE BY CLASSIFICATION**  
**SEPTEMBER 30, 2013**  
**(UNAUDITED)**

Type of Property	Tax Roll Year					
	2013		2012		2011	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Single Family	\$314,951,840	97.78%	\$303,873,952	97.53%	\$308,967,227	97.61%
Commercial	1,573,931	0.49	1,557,590	0.50	1,463,455	0.46
Utilities	1,095,400	0.34	1,766,232	0.57	1,795,224	0.57
Acreage	1,060		1,060		1,060	
Real Inventory					50,325	0.01
Vacant Lot	3,778,688	1.17	3,777,968	1.21	3,600,133	1.14
Tangible Personal, Business	<u>718,027</u>	<u>0.22</u>	<u>603,388</u>	<u>0.19</u>	<u>660,993</u>	<u>0.21</u>
Total	<u>\$ 322,118,946</u>	<u>100.00%</u>	<u>\$ 311,580,190</u>	<u>100.00%</u>	<u>\$316,538,417</u>	<u>100.00%</u>

Source: "Comptrollers Audit Report" located on the Williamson  
Central Appraisal District Website

See accompanying independent auditor's report

**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

LAW OFFICES

**M<sup>c</sup>CALL, PARKHURST & HORTON L.L.P.**

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

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

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

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

**BLOCK HOUSE MUNICIPAL UTILITY DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2014  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$5,840,000**

**AS BOND COUNSEL FOR THE BLOCK HOUSE MUNICIPAL UTILITY DISTRICT** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on March 26, 2014, authorizing the issuance of the Bonds and the pricing certificate executed by the pricing officer as authorized in the order (collectively, the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, and other documents authorizing and relating to the issuance of said Bonds, including one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

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

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

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

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

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

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

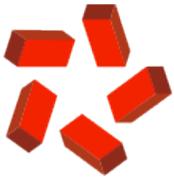
**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

Respectfully,

**APPENDIX C**  
**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](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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